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TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM; ISSUES RELATING TO NATIONAL TRANSPARENT MECHANISMS IN THE CONTEXT OF THE FIGHT AGAINST PROTECTIONISM

Report by the UNCTAD secretariat

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EXECUTIVE SUMMARY

(i) The promotion of national transparent mechanisms as part of the fight against protectionism, as appropriate, was one of the major decisions of the Cartagena Commitment (cf. TD(VIII)/Misc.4, para. 132). The need to establish or to enhance domestic transparency of trade-related policy-making is now widely recognized and has been supported by extensive investigations and analysis by OECD, GATT and UNCTAD. In December 1991, the Secretary-General of UNCTAD also convened a high-level Expert Group Meeting on Evaluating Protection in an Economy-wide Perspective.

(ii) This programme of work, which began with UNCTAD VII, is fully consistent with the Cartagena Commitment's emphasis on sequencing (para. 51). The UNCTAD secretariat has completed the first two steps of the Cartagena sequencing policy, namely the identification of important issues and the conduct of analytical work which benefits from inputs from governmental and non-governmental experts. Certain aspects of the issue are maturing to the point where intergovernmental consultations might be appropriate. This report describes the set of issues relating to national transparency mechanisms and summarizes briefly the analytical work accomplished to date.

(iii) The work on national transparency mechanisms constitutes only one part of the secretariat's work programme in the area of "protectionism, structural adjustment and trade-policy reforms". Moreover, the deliberations on these issues will provide an important input for progress in other areas; conversely, the secretariat's work to date in other areas will provide important information for the functioning of national transparency mechanisms.

(iv) The analysis supporting transparency initiatives rests largely on the need to remove the trade policy bias in favour of uncompetitive industries seeking protection. Uncompetitive high-cost producers make demands on government to avoid the need for adjustment. In the absence of government help, high-cost producers are threatened by bankruptcy and their workers risk losing their jobs. Consequently, both producers and workers are highly motivated to devote significant time and money to influencing the government - directly and through the media. However, the real costs of protection are usually spread among the community at large, do not bear heavily on any single member, and may be amplified as time passes. In the absence of adequate information regarding the medium and longer-term effects of protection on the community, no effective objections are raised and the one-sided debate usually results in the government acceding to the uncompetitive producers' demands. Accordingly, in many cases governments have resorted to policies which are defensive and protectionist, enabling inefficient capacity to remain in operation at the expense of lower-cost imports. The developing countries clearly have an important interest in this policy bias.

(v) Although public awareness is growing, to date the policy process still ignores the interests of many groups. It is to redress this situation that proposals have been made for more transparent mechanisms - in the form of

special "transparency agencies" - to generate information about, and to promote a wider domestic understanding of, the economy-wide effects of government assistance to industry in all its forms. While transparency mechanisms are not a panacea for preventing protection, recent experience shows that such a mechanism can contribute significantly to a more liberal trading regime.

(vi) The appropriate role of transparency mechanisms in developing countries is quite different because the problems they face are different. Unlike the developed countries, in which trade-policy initiatives are merely fine tuning adjustments, many developing countries are embarking upon pivotal economic reforms. In effect, a growing number of developing countries have adopted policies to integrate their economies more closely into international markets. Many of these economies currently have numerous and significant product and factor price distortions. The effects of reallocating the resources necessary to make these economies competitive are likely to be much more extensive than the corresponding effects of trade policies in developed countries.

(vii) Consequently, the effects of economic reforms on the distribution of income in the developing countries are likely to be much greater. This, in turn, means that the losers from reform (those benefiting from current policies) may incur greater short-run costs. Even though the benefits from reform will far exceed the losses, political opposition to reform will be great. Governments considering bolder reforms will need widespread support from various segments of the economy in order to succeed and to generate continued public support for reform. Since the costs of economic reform are likely to occur sooner than the benefits, the general public must be convinced that the future benefits more than offset the current costs. In the absence of such conviction, the political pressure against reform may become too great to withstand, so that reforms may be reversed before they have had a chance to succeed.

(viii) Chapter II reviews the experiences of transparency agencies in four developed countries: Australia, Canada, New Zealand and the United States of America. This review deals with a number of features of transparency agencies, including the scope of each agency's activities, whether the agency evaluates protectionism from an industry or economy-wide perspective, the degree of political independence of the agency, the openness of the agency's procedures to the general public, and whether the agency is involved in policy-making or the administration of trade-policy measures. This review suggests that the present Australian agency is a good example of a national transparency mechanism.

(ix) Chapter III reviews the nature of the analytical activities of a transparency agency, and reports on techniques used to evaluate the costs and benefits of protection on the directly and indirectly affected sectors and on the economy as a whole.

(x) Based upon previous work by UNCTAD and other international organizations, professional literature, and the report of the UNCTAD Expert Group Meeting, the secretariat suggests that effective transparent mechanisms should have the following characteristics, all of which are deemed vital:

- transparency studies should evaluate the economy-wide effects of protection;

- the transparency process should be open to all affected parties;

- the transparency agency must be independent from political pressure;

- the work programme of the transparency agency should be limited to investigative fact-finding, economic analysis, and policy advice. The agency's credibility might be seriously undermined if it were involved in policy-making or policy implementation;

- the scope of activities should comprise preparatory work, including policy advice to be given prior to the government taking a decision, as well as review studies conducted after policy decisions have been taken;

- transparency studies must be done to the highest standards of objectivity, by competent professionals using modern methods of economic analysis.

The secretariat also finds merit in the UNCTAD expert group recommendation that transparency studies include the broadest scope of trade-policy measures, including domestic measures with trade implications and, in particular, anti-dumping and anti-subsidy (countervailing) actions. Further, there is a need to examine protectionism not only from a national economy-wide but also from a global perspective.

(xi) The Cartagena Commitment called on the UNCTAD secretariat to provide technical assistance to interested countries to help with the establishment of transparent mechanisms. At this juncture "interested" countries are likely to be many: all those striving for more open economies or undertaking economic reforms leading to market-based systems can benefit from transparent mechanisms in order to raise the level of public debate on trade-policy issues. Transparency studies can assist policy-makers to promote freer trade by providing a history of experience from other countries. Such information could prove useful for policy formulation and implementation, and in justifying policy initiatives to the general public. The latter consideration is particularly useful since public acceptance of new policies generally requires public understanding of the reforms introduced and the expected results. This could be especially useful when windows of opportunity for freer trade are opened.

(xii) It should also be stressed that the Cartagena Commitment called on the secretariat to strengthen its technical cooperation activities with the objective of strengthening national capacities for trade and development (TD(VIII)/Misc.4, para. 163). Such technical assistance should include trade-policy reforms, including, on request, assistance to developing countries preparing for their participation in the GATT Trade Policy Review Mechanism.

(xiii) The mandate given to the UNCTAD secretariat to promote the establishment of transparent mechanisms makes it incumbent on the secretariat to be in close touch with existing mechanisms in order to benefit from their advice and experience. In fact, the UNCTAD expert group recommended that representatives of national agencies should meet periodically to share their experiences. Such international networking of officials of national transparency agencies would facilitate the exchange of solutions to methodological problems, and make it easier to share the results of national transparency studies. These meetings would also provide an opportunity for the national agencies to formulate suggestions to the UNCTAD secretariat that might be useful in the review of the problems of protectionism and structural adjustment.

INTRODUCTION

1. The promotion of national transparent mechanisms, as appropriate, was one of the major decisions of the Cartagena Commitment. Paragraph 132 of the Commitment states the decision as follows: 1/

> "Reaffirming paragraph 105(4) of the Final Act of UNCTAD VII [...] that Governments should consider, as part of their fight against protectionism, as appropriate, the establishment of transparent mechanisms at the national level to evaluate measures sought by firms/sectors, and the implications of such measures for the domestic economy as a whole and their effects on the export interests of developing countries and the need to take expeditious and concrete measures towards this end, the Conference agrees that UNCTAD should promote the establishment of these mechanisms, including discussion on their relevant features, and their participation in the work of the appropriate UNCTAD bodies, as appropriate. The secretariat should provide technical assistance to interested countries in connection with the establishment of such mechanisms."

2. The need to establish or to enhance domestic transparency of trade-related policy-making is now widely recognized and has been supported by extensive investigations and analysis. For example, in 1983 OECD analysed the experience of several countries in improving the transparency of public assistance and provided a checklist for the assessment of trade-policy measures that would contribute to the rationalization of national trade-policy measures and encourage structural adjustment. 2/ In 1984, a Committee of Eminent Persons commissioned by the Director-General of GATT recommended that "the making of trade policy should be brought into the open" and that proposals for protective action should be systematically analysed through a "protection balance sheet". It also suggested that each country should establish a special institution to act as a "magnifying glass", highlighting the economy-wide distribution of the costs and benefits of the protection measures imposed by that country. 3/

3. A report issued by another international study group in 1987 also identified the need for special institutional arrangements to promote domestic transparency in protection policy. In addition, it provided the general guidelines that should be met and proposed that an agreement to establish domestic transparency agencies be negotiated as part of the Uruguay Round of multilateral trade negotiations. 4/

4. In 1988 UNCTAD issued a report providing an overview of some existing transparency mechanisms. 5/ Furthermore, in December 1991 the Secretary-General of UNCTAD convened a high-level Expert Group Meeting on Evaluating Protection in an Economy-wide Perspective (hereinafter referred to as the "UNCTAD expert group"). The report on that meeting is contained in another UNCTAD report. 6/

5. This programme of work, which began with UNCTAD VII, is fully consistent with the Cartagena Commitment's emphasis on sequencing (TD(VIII)/Misc.4, para. 51). Thus, the UNCTAD secretariat is (1) to identify issues of

importance, (2) to conduct high-quality analytical work which benefits from inputs from governmental and non-governmental experts, and (3) to hold intergovernmental consultations towards convergency and, where appropriate, negotiations leading to conclusions or outcomes which might include agreements, policy guidelines, recommendations for member States, decisions, or resolutions.

6. With regard to the present set of issues, the secretariat has completed its initial effort on the first two steps of the Cartagena sequencing policy. Certain aspects of the issue are maturing to the point where intergovernmental consultations might be appropriate. However, as this work progresses additional issues will emerge calling for more analytical work and, when appropriate, future intergovernmental consultations.

7. It should be noted that the work on national transparency mechanisms constitutes only one part of the general work programme of the secretariat in the area of "protectionism, structural adjustment and trade-policy reforms". Moreover, the deliberations on these issues will provide important information for progress in other areas. Clearly, progress on transparency will assist the secretariat in its ongoing responsibility to monitor trade-policy events, including progress by governments in meeting previous commitments to halt and reverse protectionism. Conversely, the secretariat's work to date on monitoring, including the maintenance of an inventory on non-tariff measures, will provide important information for the functioning of national transparency mechanisms.

8. The following chapters describe the set of issues relating to national transparency mechanisms and summarize briefly the analytical work accomplished to date. Chapter I describes the trade-policy bias towards protection. Essentially, those who reap short-term benefits from protection (or who experience short-term losses from open trade) are highly motivated to bring political pressure to bear on policy-makers. This chapter also discusses the implications of transparency mechanisms for developing countries (a) in terms of better access to developed-country markets, and (b) for more efficient policy formulation in the developing countries themselves. Chapter II reviews the experiences of transparency mechanisms in four developed countries: Australia, Canada, New Zealand and the United States of America. Chapter III reviews the nature of the analytical activities of a transparency agency, and reports on techniques used to evaluate the costs and benefits of protection on the directly and indirectly affected sectors and on the economy as a whole. Chapter IV lists the basic features of an effective transparency mechanism. The final chapter discusses the role of technical assistance in the establishment of national transparency mechanisms.

Chapter I

THE CASE FOR DOMESTIC TRANSPARENCY

9. The analysis shows that transparency initiatives are needed largely to remove the trade-policy bias in favour of uncompetitive industries seeking protection. Uncompetitive high-cost producers make demands on government to avoid the need for adjustment. In the absence of government help, high-cost producers are threatened by bankruptcy and their workers risk losing their jobs. Consequently, both producers and workers are highly motivated to devote significant time and money to influence the government directly and through the media. They are able to enlist the aid of politically powerful organizations such as industry associations, trade unions and the industry-oriented governmental bureaucracy. Trade unions support such demands because they expect more protection to result in higher wages and job security in the industry concerned. The industry-oriented bureaucracy, structured to provide an interface between government and each industry constituency, is overwhelmingly concerned with the visible short-term economic and social problems of the industry seeking protection. It gives little or no consideration to the less visible and longer-term implications for the economy as a whole. 7/

10. The real costs of any particular demand for protection are usually spread among the community at large and do not bear heavily on any single member. In the absence of adequate information regarding the medium and longer-term effects of protection on the community, the popular press accepts at face value the claims of industry. Consequently, while the matter is being considered by the government no effective objections are raised and the one-sided debate usually results in the government acceding to the uncompetitive producers' demands.

11. In short, the one-sidedness of the debate on protection policy, which makes it so difficult for governments to resist the claims of industries facing competitive difficulty, has been attributed to two interlocking phenomena: (a) the organizational strength and resolve of the industries concerned, compared to the diffused and uninformed community at large; and (b) the focus of government decision-making processes on sectors or industries, rather than on the economy-wide effects of protection.

12. The process through which protection policies are decided takes on greater significance against the backdrop of the recent history of world trade. Since the birth of GATT there have been a number of negotiating rounds that have dramatically reduced the level of tariff rates in the major industrial countries. While recognizing that all countries still have relatively high tariff rates on at least a few import-sensitive products, it is generally agreed that tariffs do not constitute a significant barrier to imports into the OECD countries. And of late the developing countries are also joining this trend as a number of them have reduced or are in the process of dramatically reducing their tariffs on a unilateral basis.

13. Notwithstanding the benefits of open trade, the world is still very far from being a free-trade economy. As tariff rates have come down, other

restrictions on imports have appeared, such as the worldwide quota system governing trade in textiles and apparel. Since the tariff-binding rules of GATT have taken away certain policy options, governments have resorted to other extra-GATT policies such as "voluntary" export restraint agreements to protect selected import-competing industries. And there is growing concern that GATT trade rules are being used to protect individual firms from import competition through the extensive use of anti-dumping and anti-subsidy remedies.

14. Thus there seems to be a movement towards less visible protectionist measures in which those who are harmed by protectionism are not aware of the harm or do not have an opportunity to express their concerns. 8/ Protectionism through non-transparent pressures results in one-sided debates with outcomes highly biased in favour of the sole debater. This one-sided debate has resulted in greater pressures on governments for protection and subsidization not only by single producers but by entire high-cost industries. Accordingly, in many cases governments have resorted to policies which are defensive and protectionist in nature, enabling inefficient capacity to remain in operation at the expense of lower-cost imports.

15. Probably the most important precondition for the removal of protectionist measures is a continuous process of structural adjustment at national levels towards an efficient allocation of productive resources. Pressures to adjust have intensified and are transmitted rapidly between countries owing to the emergence of a more global economy.

16. The developing countries clearly have an important interest in the structural adjustment policies of the developed market economies. The exports of many developing economies are concentrated in labour-intensive sectors such as textiles, footwear and consumer electronics; in natural-resource-intensive sectors such as mining and agriculture; and in mature, capital-intensive sectors such as shipbuilding and steel. Many of these sectors have experienced decline or, at best, sluggish growth in the developed market-economy countries. These are also the sectors in which adjustment is particularly difficult. In labour-intensive sectors production workers are usually poorly educated and have limited skills, so that their opportunities for alternative employment are restricted. Adjustments are also difficult in natural-resource-based sectors because they usually play the dominant role in their regional economies. Such regional considerations are also important in capital-intensive sectors. In addition, workers in capital-intensive enterprises often receive wage premiums not available in other sectors and owners have large financial investments at stake.

17. The process of structural adjustment, therefore, needs to be pursued in a positive sense. Structural policies and adjustment assistance must complement market forces to maximize long-run aggregate output, employment and welfare. In particular, faster progress in the reduction of subsidies and protection would help accelerate the reallocation of resources from stagnant or declining sectors to more efficient and growing sectors of the economy. Government aid to high-cost industries, where adjustment pressures are unlikely to relent in the medium term, would assist the process of change. Adjustment programmes involve complex policies designed to reallocate resources and to modernize existing facilities.

18. Formulating structural adjustment policies is quite complex since efficient adjustment requires close coordination between public and private sectors. The design of effective policies would benefit from the experiences of past and current policies to promote adjustment to change. Other experiences could be analysed to see whether policy objectives are still valid, whether policy objectives were achieved, and which policy instruments have been most effective in advancing structural adjustment in product and factor markets.

19. Promoting public awareness of the economic costs of resisting economic change is also important to enhance the ability of governments to resist those who seek protectionist measures that are not in the interest of the community at large. Although public awareness is growing, to date the policy process still ignores the interests of many groups. The situation might be different if full knowledge of these conditions was brought into the open. This amounts to an information problem. Consumers, downstream industries, and taxpayers (as well as export interests) are not always aware of the costs to themselves of protection. And governments often lack the information needed to evaluate policies proposed for particular industries. It is to redress this situation that proposals have been made for more transparent mechanisms - in the form of special "transparency agencies" - to generate information about, and to promote a wider domestic understanding of, the economy-wide effects of government assistance to industry in all its forms.

20. While transparency mechanisms are not a panacea for preventing protection, the recent experience shows that such a mechanism can contribute significantly to a more liberal trading regime, the most notable example being that of Australia. Clearly, similar mechanisms would contribute to more liberal trading arrangements in other developed countries as well. Such mechanisms will contribute to a better informed policy debate and, thus, to better policies.

21. The appropriate role of transparency mechanisms in developing countries is quite different because the problems they face are somewhat different. Unlike the developed countries, in which trade-policy initiatives are merely fine tuning adjustments, many developing countries are embarking upon pivotal economic reforms. In effect, a growing number of developing countries have adopted policies to integrate their economies more closely into international markets. These policy changes have often been accompanied by moves to give market forces greater scope, to privatize State enterprises, to adopt more liberal regulations towards foreign direct investment, and to liberalize financial markets. Similarly, the democratization process in Central and Eastern Europe has been accompanied by far-reaching institutional changes, rapid moves to market-based economic systems, and further integration into the world economy. A majority of these economies currently have numerous and significant product and factor price distortions. Consequently, costs of production in some sectors are far out of line with international standards. The reallocation of resources necessary to make these economies competitive is likely to be much more extensive in comparison with the effects of trade policies in developed countries.

22. Consequently, the effects of economic reforms on the distribution of income in these countries are likely to be much greater. This, in turn, means

that the losers from reform (those benefiting from current protection) may incur greater short-run costs. Even though the benefits from reform (a more rapid rate of growth in income) will far exceed the losses, political opposition to reform will be great. Governments considering dramatic reforms will need widespread support from various segments of the economy in order to succeed.

23. A transparency mechanism can be of tremendous assistance to governments in two ways. First, before reforms are enacted, the government will need information about the economic distortions to formulate trade policies that will enhance the performance of the economy. Secondly, after the reforms are enacted, the government must inform the citizens persuasively of the expected benefits to the economy in general. This is necessary to generate continued public support for reform. Since the costs of economic reform are likely to occur sooner than the benefits, the general public must be convinced that the future benefits more than offset the current costs. In the absence of such conviction, the political pressure against reform may become too great to withstand; in such cases, the reforms may be reversed before they have had a chance to succeed.

24. The Trade Policy Review Mechanism (TPRM), set up by GATT in April 1989 on a trial basis, is not a national transparency mechanism. Nor is it a comprehensive international transparency mechanism. While the TPRM does provide a means of circulating information about the trade-policy regimes of each member country, its objective is to achieve greater transparency in, and understanding of, the trade measures and practices of individual Contracting Parties. No efforts are made to evaluate the benefits and costs of trade-policy regimes on the countries themselves and on their trading partners. Although this exercise contributes to transparency, its ultimate aim is to increase adherence to GATT rules, and thereby to improve the functioning of the multilateral system.

25. The ultimate aim of national transparent mechanisms, as indicated above, is to generate information about, and to promote a wider domestic understanding of, the economy-wide effects of protection in all its forms. These two different types of transparency mechanisms complement each other, however, and help governments to understand the domestic and international implications of the full package of trade-policy measures.

Chapter II

ILLUSTRATIVE INSTITUTIONS

26. Various types of tariff commissions exist in many countries including the developing countries. In general these bodies have authority to report on tariff assistance, bearing in mind the needs of industries. In some cases, at least to some degree, they have evaluated certain elements of the nation's trade policies on an economy-wide basis. Five such agencies will be briefly surveyed below: the Australian Industry Commission (IC), the Economic Council of Canada (ECC), The Canadian Trade Tribunal (CITT), the New Zealand Economic Development Commission (EDC), and the United States International Trade Commission (USITC). In the case of Canada, the Government has decided to "close" the ECC in June 1992. The Chairman's final message stated that over the years, the ECC had published pathbreaking research and put forward policy proposals which helped to shape the public policy debate. Although the mandate of the Canadian International Trade Tribunal (CITT) extends to trade remedy measures, it follows transparent procedures which will also be reviewed. Similarly, the New Zealand EDC was disbanded in mid-1989 as the result of a budget decision and has no successor.

The Australian IAC 9/

27. The OECD survey on domestic transparency arrangements concluded that the Australian Industry Commission (IC) was the only national organization identified that provided independent and open evaluations on the economy-wide consequences of Government programmes to assist domestic industry. 10/ IC operates under an Act of Parliament; it is an advisory agency with no executive or policy-making role. In order to minimize the political pressures on IC, its Chairman and the Commissioners are appointed for up to five-year terms and cannot be removed from office except by Parliament.

28. The procedures of IC give the public an opportunity to be heard; IC also normally releases draft reports to the public before finalizing its recommendations to the Government. The Government has adopted the practice of publishing the IC's final reports before taking a policy decision. Finally, IC is required to prepare and publish an annual report on the economy-wide implications of government assistance to industry. It is interesting to note that these reports have become among the most influential documents in Australia's economic policy deliberations.

29. Guidelines in the authorizing legislation require IC to be concerned with improving the efficiency of the economy, taking into consideration the interests of consumers and users of products affected by government policies, thereby providing for public awareness of assistance measures. However, in cases involving temporary assistance - for example, unfair trade (anti-dumping and anti-subsidy) actions and trade preferences for developing countries - IC is instructed to limit its consideration to questions of "injury to domestic industry" rather than to conduct an economy-wide evaluation.

30. IC uses up-to-date techniques of economic analysis and publishes the economic consequences of proposed policy initiatives prior to

decision-making. 11/ In addition, the entire package of government assistance to industry is reviewed on an on-going basis.

The Economic Council of Canada

31. The Economic Council of Canada (ECC) was established in 1963 as an independent economic policy advisory body; it has no executive or policy-making role. The objective of ECC is to promote community consensus about desirable economic policies. ECC generally initiates its own work, which ranges over all economic policy issues. The legislation also provides for the Federal Government to ask the Council to undertake "special references", but the nature of its recommendations is not subject to Government instruction.

32. The Council is responsible for the publication of an annual review which is both an analysis of economic conditions and policy evaluation, and an assessment of contemporary issues. Its studies and research are published in consensus documents, research studies, discussion papers, conference papers, and in a quarterly bulletin. The Council may investigate and report on any economic issues relevant to overall performance. It focuses on longer-term economic research and has sponsored the development of a quantitative model of the Canadian economy ("Candide"), which it uses in preparing its annual reviews.

33. The Council does not, however, focus on industry assistance or protection issues in any systematic way. The bulk of its output has been devoted to domestic microeconomic issues (e.g., the labour market, productivity and technical change), macroeconomic issues (e.g., monetary and fiscal policy, the balance of payments), and social issues (e.g., housing, education, health and welfare). Its capacity to abstract from narrow viewpoints would appear to be hampered by the composition of its membership, with representatives of management, labour, economic sectors and regions, and by the statutory requirements for consensus within the Council.

34. The Canadian Government abolished ECC in June 1992. That decision was part of a package of budget cuts aimed at reducing federal expenditures. There is, however, another Government institution which deals with economic and trade-related matters, namely the Canadian International Trade Tribunal.

The Canadian International Trade Tribunal (CITT)

35. CITT is an independent quasi-judicial body which reports to Parliament through the Minister of Finance. The Tribunal began operations in December 1988 and took over all the inquiries and appeal functions of the Tariff Board, the Canadian Import Tribunal and the Textile and Clothing Board. The Government's intention in amalgamating the three institutions was to strengthen and streamline Canada's facilities for trade remedies and inquiries.

36. The Tribunal carries out its statutory responsibilities in an independent and impartial manner. It is not part of any Government department or agency. While the Government or the Minister of Finance may request the Tribunal to conduct various inquiries, such requests are made publicly and the Tribunal decides the manner in which it will respond. The CITT Act states that hearings should be carried out as "informally and expeditiously" as possible.

The Tribunal has the power to subpoena witnesses and to require parties to submit documents. In virtually all of its programmes, the Tribunal conducts hearings open to the public.

37. The Tribunal has both judicial and advisory functions. It acts as an administrative court in cases involving appeals from customs and excise decisions as well as anti-dumping and anti-subsidy injury inquiries. It also acts almost as a standing commission of inquiry with powers to conduct research, find facts, hold public hearings and report on a broad range of trade-related matters. These programmes relate to various import safeguard inquiries and general inquiries into trade and tariff matters.

38. Finally, the Governor in Council may ask the Tribunal to conduct an inquiry and to report on any matter relating to the economic, trade or commercial interests of Canada. The Minister of Finance may also ask the Tribunal to conduct an inquiry and report on any tariff-related matter, including any which concerns the international rights and obligations of Canada. In conducting a general inquiry, the tribunal normally invites written submissions from interested parties, publishes its own background papers and holds public hearings as a means of getting all the facts and opinions which are relevant to the inquiry into the open.

The New Zealand EDC

39. The New Zealand Economic Development Commission (EDC) has been in operation since early 1987. It essentially replaced the Industries Development Commission, which had in turn superseded the Tariff and Development Board in 1975. The two earlier bodies operated under legislation which formally secured their independence and provided for open procedures including public hearings and published reports. However, in practice, they were more concerned with determining the level and forms of assistance needed for the development of particular industries than with providing advice based on national welfare considerations.

40. EDC was created pursuant to a report on the establishment of an Industrial Development Board issued by an advisory body appointed by the Government. The proposed Board would advise the Government regarding the encouragement of those industries and economic activities of greatest benefit to the country as a whole.

41. Instead of recommending the establishment of a body that would be "picking winners", however, the report noted that the national welfare would be better served by having an advisory agency to "increase public scrutiny and understanding of Government economic policies and hence ... the achievement of a more prosperous and fair economy". It was also stressed that the Board "should not adopt a sectoral or purely financial approach, looking only at the profit or loss for one activity or project. Rather it should consider the implications of a proposal from a national or broad community perspective". 12/

42. The report recommended that a Chairman and three Commissioners be appointed for periods of up to five years through an Act of Parliament. Commissioners would have the power to initiate their own inquiries. They

would be encouraged, though not required, to hold public hearings; however, there is an obligation to publish the reports to Governments. In the event, EDC was created by Cabinet directive rather than by an Act of Parliament, although in other respects it conformed to the arrangements that had been proposed. As was mentioned earlier, the EDC has, however, been disbanded.

The USITC

43. The United States International Trade Commission (USITC) is an autonomous advisory and investigative agency; it has no executive or policy-making role. USITC is headed by six Commissioners, no more than three of which can be from the same political party. The conditions and timing of appointments to USITC have been designed to minimize the scope for executive manipulation of its membership. (Each Commissioner is appointed by the President with the consent of the United States Senate for a fixed nine-year period; and the Chairman is appointed by the President for a two-year term. However, successive Chairmen cannot be from the same political party.) In addition, the 1974 Trade Act removed the Commission's budget from executive control. These features are unique among Federal Agencies of the United States Government.

44. USITC has three major responsibilities: (1) to investigate escape clause and unfair trade actions (anti-dumping, anti-subsidy, and infringement of intellectual property rights); (2) to maintain the United States tariff schedule and provide information to trade negotiators; and (3) to conduct studies requested by the President or Congress on issues relating to international trade (so-called "section 332 studies"). 13/

45. It is this third responsibility that is related to possible economy-wide analyses of trade policy issues. However, the scope of each "section 332" study is negotiated to conform to the political interests of the particular request by the President or Congress; the scope is seldom economy-wide. The studies are based on up-to-date economic methods; they are not justifications or rationalizations of any particular position. Moreover, there are generally opportunities for public input from all sides of the issue.

46. USITC does not have an on-going responsibility to study the effects of trade policies on the United States economy, nor to provide advice to the executive or legislative branches of Government. However, USITC was recently requested by the Senate Committee on Finance to conduct a "section 332" study on the economy-wide effects of significant United States import restraints. 14/ The reports resulting from this exercise constitute a one-time transparency study. 15/

47. As a synthesis, it is important to note that none of the above national agencies has a policy-making role; all are advisory to the Government. On the other hand, two of the agencies (USITC and the CITT) have judicial as well as advisory responsibilities. They administer the injury test for anti-dumping and countervailing duty actions as well as other legalistic issues. In contrast, the Australian Industry Commission has no such administrative role.

Chapter III

ANALYTICAL ACTIVITIES OF A TRANSPARENCY AGENCY: POSSIBLE SCOPE

48. A transparency agency is primarily responsible for the evaluation of existing trade policies and measures and for providing information that is useful to policy-makers who are considering taking decisions on new trade-policy initiatives. The information to be provided should cover all sides of the issues being studied and should be communicated to all interested parties, i.e. the public in general. The information to be provided would normally include the benefits to the country to be derived from a protective policy as well as the costs. Conversely, the benefits and costs of freer trade policies should also be identified.

49. The UNCTAD Expert Group devoted considerable time to discussing the feasibility and possible methodologies of estimating the costs and benefits of protection. 16/ There was a consensus that economic tools were available to estimate the costs and benefits of protection for the individual sectors being protected as well as for the economy as a whole. The group discussed the pros and cons of alternative methodologies, including partial equilibrium and general equilibrium models. 17/ It was agreed that both categories of models had strengths and weaknesses. Good modelling required incorporating the important institutional features of the given trade policy into the economic analysis. For this the tools of analysis must be flexible to capture the differing types of issues that will arise. Furthermore, the analytical tools cannot simply be taken from one country and copied by another, without appropriate modification. It was further agreed that each country must have its own modelling capability. To the extent that some developing countries did not have such capability, technical assistance would be useful. One approach to solving this problem was the suggestion for such developing countries to begin by using the simpler tools of economic analysis, then over time to graduate to more complex methods. 18/ This is especially true for those developing countries which lack the required data or technical expertise to use more complex methodologies.

50. Calculation of the costs and benefits of protection on trading partners is not yet within the scope of national transparent mechanisms. Generally, the net effects on the trading partner are negative. 19/ At issue is the magnitude of benefits accruing to those domestic residents and industries who gain versus the magnitude of the costs inflicted on those domestic residents and industries who lose from protectionism; it is also relevant to calculate any revenues (or costs) accruing to Government. A second important point is that the focus is on providing information relevant for trade-policy decisions. Thus, any evaluation will concentrate on the costs and benefits of a new policy initiative, given the existing structure of trade and protection. Attention is not always given to an evaluation of the economy-wide effects of a country's total package of trade restrictions.

51. There are two major categories of economic analysis relevant to these calculations. The first category involves partial equilibrium analysis of the microeconomic gains and losses to those directly tied to the product subject to protection. The groups to be considered include the buyers and sellers of

the product as well as the buyers and sellers of upstream and downstream products. For example, protection that raises the price of domestic steel will harm factors of production employed in downstream steel-using industries such as automobiles (as well as consumers of automobiles). Similarly, factors of production employed in upstream coal mining will benefit. This method of analysis emphasizes the effects of protection on the industry itself and on closely related upstream and downstream industries, including any implications for Government spending and taxing. As such it should capture the most significant effects; however, there are other economy-wide effects that are often overlooked.

52. The second category of economic analysis involves calculations using computable general equilibrium models. These models quantify all the effects, i.e. the direct and indirect (upstream and downstream) effects of protectionist policies. They can also incorporate other macroeconomic considerations such as (1) the displaced workers being re-employed in other unrelated industries and (2) exchange rate implications for imports and exports of other products. This method is designed to evaluate the full economy-wide effects of protectionism.

53. Both the partial equilibrium and computable general equilibrium models involve comparative static analysis. The models are used to calculate the values of important economic variables when a particular protectionist policy has been changed. The values of these calculated variables are then compared with existing observable values of these same variables, i.e. with current protectionist policies in place. The differences in the values of these variables constitute the effects of the particular protectionist policy being studied.

54. The variables commonly analysed would include the direct effect on output of the domestic industry (and jobs), the effect on prices paid by domestic buyers for domestic output and for imports, the effect on profits, the effect on Government revenues (and costs), etc. Similarly, indirect effects on upstream and downstream industries would also be examined. Additional macroeconomic effects would also be quantified if computable general equilibrium models are used.

55. These models are definitely not dynamic in nature. One cannot trace the effects of changing protectionism over time. Questions cannot be answered regarding interim adjustment costs such as income losses to displaced workers while they are searching for alternative employment. Other factors would be overlooked such as wealth losses to workers who must relocate to another community and lose on the sale of their home in a depressed local labour/housing market. This is not meant to imply that such questions cannot be studied and answered. It is simply that such questions are generally outside the scope of traditional partial equilibrium and computable general equilibrium models.

56. A second comment concerns the a priori information requirements of these models. These methods of analysis require information on the magnitude of the economic relationships among various economic variables. In many cases, parameter values can be taken from studies published by other scholars.

In other cases, the values can be assigned on the basis of qualitative information. It is also possible in some cases to calculate the values of a particular economic parameter using the values of other known economic parameters. When all is said and done, the parameter values being used in both types of analysis described above must be considered as estimated with error. Unfortunately, the error cannot be quantified as is often the case with classical statistical estimates. Consequently, the ultimate estimates that are derived from the use of these models cannot be statistically qualified.

57. Thirdly, an alternative approach would be to estimate econometrically the relationships among the important economic variables to be analysed using a history of real world data. However, in order to incorporate the full economy-wide effects, the econometric model would be every bit as complex as a computable general equilibrium model. The statistical problems in successfully estimating models of this complexity are immense. Given the differences in institutional constraints of the different protectionist policies, different models would be required to analyse the effects of different policies. Moreover, if the historical period used to estimate the econometric model were not representative of the current period for which protectionist policy analysis is to be made, the model would not be applicable at all. Given the costs of estimating these models and the uncertainty regarding their applicability, few scholars would suggest their use for economy-wide policy analysis.

58. The above discussion is limited to methods to study the effect of trade measures on the subject country. However, any trade policy that affects the home country must also affect other countries as well. In most cases, trade restraints will have adverse economic effects on the country's trading partners. These adverse effects might, in turn, have indirect rebound effects owing first to normal economic forces, and second, to possible retaliation by the adversely affected countries.

59. Methods of economic analysis do exist to study the implications of new instances of protection on a worldwide industry, including directly affected upstream and downstream sectors, if the required data are available. 20/ In general, it is feasible to study the worldwide implications of new policies affecting agricultural and industrial commodities. However, data problems might be difficult for manufactured products involving several stages of processing. But such studies may have to be confined initially to the effects on a particular industry, given the concomitant difficulties in estimating the effects of protection on the welfare of all countries.

Chapter IV

AN EFFECTIVE TRANSPARENCY MECHANISM: SOME BASIC FEATURES

60. The UNCTAD Expert Group Meeting on Evaluating Protection in an Economy-wide Perspective discussed the features of national transparent mechanisms. The Group reviewed the agencies of four countries (cf. chap.II above). Moreover, the Group learned of the experiences of Brazil, India, Morocco and Nigeria. 21/ To date, none of the latter countries have true transparency agencies. The participant from Brazil indicated that trade policy was overly influenced by protectionist pressures with little input from consumers. The Indian Bureau of Industrial Cost and Prices (BICP) conducts studies on trade policy for the Government using modern economic methods. The BICP reports are generally confidential. 22/ The participants from Morocco and Nigeria stated that the trade policies of their countries had recently been reformed. Both countries have agencies responsible for policy: the Foreign Trade Council in Morocco and the Tariff Review Board in Nigeria. While these agencies are not insulated from political pressure, they both have provisions for inputs by representatives from private-sector representatives.

61. After discussing in detail the work programmes and methodologies of four illustrative institutions, the Expert Group generally agreed that the Australian Industry Commission was a good model for an effective agency. The United States International Trade Commission had recently completed a comprehensive transparency study; however, this was a one-time exercise at the request of the United Sates Senate. While the United States study was highly regarded, the expert group did note that, in contrast to the United States one-time investigation, the Australian Commission had an on-going responsibility to conduct annual reviews on the costs and benefits of trade policies and measures, including any new initiatives.

62. The primary advantage of the Australian Industry Commission as a model transparency agency, it was agreed, resulted from a number of institutional features. The Commission has continuing legislated responsibility to study the economy-wide effects of trade policy, including the issuance of an annual public report. Its study procedures are open to the public, as is its policy advice. The Commission enjoys a high degree of political independence from political pressure. Its role is to conduct inquiries and to provide policy advice to the Government; it has no policy-making authority.

63. The United States International Trade Commission has served as a transparency agency on an ad hoc basis. It has conducted studies at the request of the President (through the United States Trade Representative), the Senate Finance Committee, and the House Ways and Means Committee. The scope of studies to be conducted has been negotiated between the staff of the Commission and the requesting body. Hence, the studies usually have a political agenda. For example, the recent transparency study conducted by the Commission was confined in scope to exclude the costs and benefits of unfair trade actions (e.g., anti-dumping and countervailing duties). 23/ On the positive side, it provided opportunities for public input. In general, the Commission has a reputation for objective studies: its role is investigative, it has no policy-making responsibility, and it has a well-trained professional staff.

64. In the light of these and other considerations, the UNCTAD secretariat suggests that effective transparent mechanisms should have the following characteristics, all of which are deemed vital:

(1) Transparency studies should evaluate the economy-wide effects of protection. This will safeguard against the excessive use of power by policy-makers in favour of special interests at the expense of the general public. Similarly, transparency studies should include alternative programmes to assist firms and workers in adjusting to changing competitive conditions.

(2) The transparency process should be open to all affected parties. There should be opportunities for the public to provide inputs and to voice their views during the process. Any policy advice given to the government should also be released to the public.

(3) The transparency agency must be independent from political pressure. Such political independence might be enhanced if the agency were not located in a policy-making government Ministry, nor in a government agency responsible for the administration of trade regulations.

(4) The work programme of the transparency agency should be limited to investigative fact-finding, economic analysis, and policy advice. The agency's credibility might be seriously undermined if it were involved in policy-making or policy implementation.

(5) The scope of activities should comprise preparatory work, including policy advice to be given prior to the government's taking a decision, as well as review studies conducted after policy decisions have been taken. Review studies should be aimed at achieving better trade-policy decisions in the future rather than at evaluating the performance of policy-makers.

(6) Transparency studies must be done to the highest standards of objectivity, by competent professionals using modern methods of economic analysis. The credibility of the transparency agency will depend upon the track record of the agency's output.

65. Two final issues were raised by the UNCTAD expert group. First, transparency studies should cover the broadest range of trade-policy measures, including domestic measures with trade implications and, in particular, anti-dumping and anti-subsidy (or countervailing) actions. Only by including all trade measures can a study truly reveal the present and potential economy-wide effects of the trade sector on the level of income, employment and well-being of all citizens in the country.

66. Secondly, it was generally agreed that there is a need for the examination of protectionism not only from an economy-wide perspective but also from a global perspective. Two global considerations were identified. One is the adverse effects of one country's trade policies on particular trading partners, especially the developing countries. The second concerns the effects of general trade-policy regimes on the international distribution of gains from trade. Some participants in the expert group felt that these global issues formed part of the responsibilities assigned to national

transparency agencies. Other participants suggested that national governments were unlikely to assign high priority to such activities; consequently, if such issues were studied at all they would be studied poorly. Pragmatically speaking, some experts considered that if global transparency is to be achieved, it will in all likelihood, have to be provided by a global transparency agency.

Chapter V

THE ROLE OF TECHNICAL ASSISTANCE

67. The Cartagena Commitment called on the UNCTAD secretariat to provide technical assistance to interested countries for the establishment of transparent mechanisms. At this juncture "interested" countries are likely to be many; those striving for more open economies or undertaking economic reforms towards market-based systems can benefit from transparent mechanisms to raise the level of public debate over trade policy issues. Transparency studies can help policy-makers to promote freer trade by providing a history of experience from other countries. Such information could prove useful for policy formulation, policy implementation, and in justifying policy initiatives to the general public. The latter consideration is particularly useful since public acceptance of new policies generally requires public understanding of the reforms introduced and the anticipated results. This could be especially useful when windows of opportunity for freer trade are opened.

68. The Expert Group Meeting on Evaluating Protection noted that the relationship between national and international transparency mechanisms is complementary rather than conflicting. The Group of Experts saw a clear need for technical assistance to countries that had difficulty in providing information solicited by the GATT secretariat in connection with the Trade Policy Review Mechanism (TPRM). The TPRM reviews are quite comprehensive and include a wide range of trade-policy measurers administered by numerous Ministries which needed to be brought together so that each Government can have a comprehensive understanding of its total trade-policy package. It should also be stressed that the Cartagena Commitment (para. 163) called on the UNCTAD secretariat to strengthen its technical cooperation activities with the objective of strengthening national capacities for trade and development. Such technical assistance should include, inter alia, trade-policy reforms, including, on request, assistance to developing countries preparing for their participation in the GATT Trade Policy Review Mechanism.

69. Technical assistance in the area of transparent mechanisms has two functions. There is a need first to provide as many countries as possible with information on the value and importance of establishing such mechanisms, and, secondly, to assist in creating the necessary institutional infrastructure. The first function calls for a series of seminars to be held at interregional, regional or national levels, as appropriate. The second function of institution building and training, which constitute a continuum, can be served through national workshops and advisory missions. Governments having transparent mechanisms or similar institutions can make a significant contribution in this respect by providing the necessary training of officials in their own capitals.

70. While noting that the tools of economic analysis are available, the Expert Group recommended that each country should have its own analysis and modelling capability. The data problems are, however, more accurate in many developing countries and technical assistance can contribute significantly to the capabilities of these countries in overcoming these problems.

71. The mandate given to the UNCTAD secretariat to promote the establishment of transparent mechanisms makes it incumbent on the secretariat to be in close touch with existing mechanisms to benefit from their advice and experience. In fact, the UNCTAD Expert Group recommended that representatives of national agencies should meet periodically to share their experiences. Such international networking of officials of national transparency agencies would facilitate the exchange of solutions to methodological problems, and make it easier to share the results of national transparency studies. These meetings would also provide an opportunity for the national agencies to formulate suggestions to the UNCTAD secretariat that might be useful in helping the secretariat to fulfil its work programme.

Notes

1/ A New Partnership for Development: The Cartagena Commitment (TD(VIII)/Misc.4).

2/ Transparency for positive adjustment, OECD, Paris, 1983. Other OECD reports which reflect the interest in this issue of domestic transparency are: Competition and trade policies; their interaction (1984); Costs and benefits of protection.

3/ See the Leutwiler Report, "Trade Policies for a Better Future", GATT, 1985.

4/ Oliver Long et al, Public Scrutiny of Protection: A Report on Policy Transparency and Trade Liberalization, Trade Policy Research Centre, London, November 1987.

5/ Godfrey A. Rattigan, Domestic Transparency Procedures, (UNCTAD/MD/MISC.23), 22 April 1988 (English only).

6/ UNCTAD/ITP/77, 17 January 1992 (English only).

7/ Long et al, op. cit.

8/ For example, the United States anti-dumping and anti-subsidy (countervailing) duty laws do not allow the administrators to take into consideration the interests of the buyers of the imports subject to the proceedings.

9/ The Australian Industries Assistance Commission has been given a revised mandate and renamed the Australian Industry Commission.

10/ OECD, Transparency for Positive Adjustment (Paris: OECD, 1983), p. 246.

11/ IC estimates the price effects of assistance to industry using a concept called the "Effective Rate of Assistance" (ERA). The ERA is a measure of the net price benefit to an industry resulting from import protection (or domestic subsidy) taking into account any other assistance or impediments to inputs such as subsidies to inputs, tariffs on imported inputs, and domestic taxes on domestic inputs. Output and employment effects are estimated using a large-scale multisector model of the Australian economy known as the ORANI model. ORANI is a computable general equilibrium type model. See the annex for a discussion of alternative estimation methods.

12/ New Zealand Government, Report of the Steering Committee to advise on the Proposed Industrial Development Board, Government Printer, Wellington, 1986.

13/ USITC is authorized to initiate studies of its own; however, this provision is seldom used.

14/ See "The Economic Effects of Significant United States Import Restraints, Phase I: Manufacturing," (USITC Publication 2222, October 1989), "The Economic Effects of Significant United States Import Restraints, Phase II: Agricultural Products and Natural Resources," (USITC Publication 2314, September 1990), and "The Economic Effects of Significant United States Import Restraints, Phase III: Services," (USITC Publication 2422, September 1991). It is important to note, however, that USITC was instructed to exclude from its study import restraints resulting from unfair trade (anti-dumping, anti-subsidy and infringement of intellectual property rights) actions.

15/ This study used partial equilibrium analysis to estimate the direct, upstream and downstream effects of protection on producers, workers and consumers. Additional macroeconomic effects are estimated and reported in the third phase of the study using a computable general equilibrium model.

16/ For a more detailed discussion see "Report on evaluating protection in an economy-wide perspective" (UNCTAD/ITP/77), Annex II, and the annex to this document.

17/ The alternative methodologies are described in more detail in the background report (UNCTAD/ITP/77, annex II, chap. 2, and appendix I).

18/ The Australian experience began with the calculation of "effective rates of protection" (ERP). The ERP is an index that incorporates the assistance given to domestic industry from protection of a final good and the competitive disadvantage imposed on the industry from protection of a domestic industry that supplies inputs. Over time this index was expanded to include the assistance given the domestic industry by various subsidy programmes as well as the disadvantages posed by other domestic policies.

19/ Under certain circumstances the net effect on the trading partner could be zero. There are unique circumstances in which the effects of protection by one country could benefit a particular trading partner, but only at the expense of other trading partners. For example, a "voluntary" export quota system may reserve a share of the importing country's market for imports from a non-competitive exporting country. Alternatively, export quotas permit exporters to raise their prices, thereby, extracting economic rents from consumers in the trade-restricting country.

20/ Of course, it would not be possible to study the implications of retaliation, unless the details of retaliation were known.

21/ Recent informal discussions with the Polish Authorities revealed that this country may also be interested in such a mechanism.

22/ However, the Government of India has recently announced its decision to convert this organization into a national transparency mechanism.

23/ This omission may not be too serious in practice. The United States International Trade Commission has administrative responsibility in anti-dumping and countervailing duty proceedings. It is difficult for an administrative agency to conduct an objective investigation to evaluate its own administrative functions.

Annex

EVALUATION OF THE COSTS AND BENEFITS OF PROTECTION: POSSIBLE APPROACHES

This annex provides additional information about the methodological issues.

1. Partial equilibrium analysis: homogeneous goods

The introduction of a new protective instrument will adversely affect domestic consumers/buyers, but will benefit domestic producers. In addition, a tariff would generate revenue for the home country government. If a quota were used, quota rents would be captured by someone, depending on the administrative procedures being used. For example, if the quota were administered using import licences which were given to domestic importers, the quota rents would be captured by domestic importers. If quota licences were auctioned by the government, the government would capture the quota rents. If the quota were an export quota, the rents would be captured by foreign exporters.

To summarize, protection results in three direct effects: consumer losses, producer gains, and tariff revenue or quota rents (hereafter revenue/rents). For homogeneous goods, the law of one price holds; thus, the price effect used to calculate all three of these effects is the same. a/ Finally, since consumers lose on goods purchased from domestic producers as well as imports, consumer losses will always exceed producer gains. b/

To estimate the consumer losses, one needs three elements of information: (1) the initial value of consumption (VC_o), (2) the percentage price effect (or quantity effect) of the import restriction (p), and (3) the extent to which the quantity consumed responds to a change in the price (the own-price elasticity of demand = de > 0). c/ The upper bound estimate of the consumer loss is CL_u, where:

$$CL_u = p\ VC_o$$

However, the higher price will reduce consumer purchases. Taking this response into consideration yields a consumer loss (CL) of:

$$CL = p\ VC_o\ [1 - (p\ de)/2].$$

To estimate the producer benefit, one needs two additional sets of information: (1) the initial value of domestic output (VD_o) and (2) the extent to which domestic output will increase owing to the higher price (the elasticity of domestic supply = se > 0). The lower bound estimate of the producer gain is PG_1, where:

$$PG_1 = p\ VD_o.$$

However, the higher price will induce domestic producers to increase output. Taking this response into consideration yields a producer gain (PG) of

$$PG = p\ VD_o\ [1 + (p\ se)/2].$$

To estimate the revenue/rents (R), one additional piece of information is needed, namely the initial value of imports (VM_o). d/ The upper bound estimate of the revenue/rent is (R_u), where

$$R_u = p\ VM_o.$$

However, the higher price owing to protection will induce consumers to substitute domestic output for imports, thereby reducing the volume of imports. Taking this response into consideration yields an estimate of the revenue/rents effect of:

$$R = p\ VM_o\ [1 - (p(se + de))/2].$$

2. Effective rate of protection/assistance (ERA)

The ERA estimates the net assistance provided to a domestic industry by the entire package of government policies affecting that industry. It includes both domestic policies (which would also have international trade effects) and border policies. The measurement addresses the question: What is the total effect of all government policies on the rewards to primary factors employed in the industry, i.e., value added? The measure is:

$$ERA = (VA - VA') / VA'$$

where VA is the value added with government policies in place, and VA' is the value added that would exist at world prices (i.e., without government policies that assist the industry).

The data required to calculate ERAs includes the same data as listed in the previous section plus detailed information on domestic policies (primarily subsidies and taxes) that affect a given industry, including any distortions that affect the prices of primary factors. In addition, one needs input-output relationships between the subject industry and its upstream suppliers, together with domestic and international policies that affect prices of those input components and materials. On the other hand, demand and supply elasticities are not needed.

3. Partial equilibrium analysis: differentiated goods

If the import good subject to an import restriction is differentiated from the domestic import-competing good, there are really two goods (the import good and the domestically produced good) whose demands are related. An import restriction will result in an increase in the price of imports, thereby, creating losses to consumers. In addition, the higher price of imports would divert spending from imports to the domestic substitute, i.e., the demand for the domestic import-competing good would increase (shift). This shift in demand would induce an increase in domestic output and, in all likelihood an increase in the price of the domestic good. Producers of the domestic good would benefit from the increased demand and higher price; however, consumers of the domestic good would lose. There would also be a revenue/rent effect, as discussed in section 1 above.

To summarize, protection results in three direct effects: consumer losses from the higher price of imports and the higher price of the domestic good; producer gains from the increased demand and higher price of the domestic good; and the revenue/rent effect on imports. Regarding the domestic good, the higher price which benefits producers is precisely offset by the same higher price which harms consumers; the net welfare effect is zero!

To estimate the consumer losses from higher import prices, one needs three pieces of information: the initial value of imports (VM_o), the percentage effect of the import restriction on the price of imports (P_m), and the extent to which the quantity of imports responds to a change in the price (the import demand elasticity = $me > 0$). The upper bound estimate of the consumer loss on imports is CLM_u, where:

$$CLM_u = P_m \, VM_o.$$

However, the higher price will reduce consumer purchases. Taking this response into consideration yields a consumer loss on imports (CLM) of;

$$CLM = P_m \, VM_o \, [1 - (P_m \, me)/2].$$

The producer gains from the higher price of the domestic good are identical to the consumer losses. The monetary transfer from consumers to producers is more difficult to estimate. The biggest problem is that the effect of protection on the price of imports is not the same as the effect on the price of the domestic good; in all likelihood, the indirect effect of protection on the price of the domestic good will be much smaller than the direct effect of protection on the price of imports. One also needs information on the initial value of domestic output sold in the domestic market (VD_o), and the extent to which output responds to an increase in price (i.e., the elasticity of domestic supply = $se > 0$). The lower bound estimate of the producer gain (and consumer loss) on the domestic good is PGD_1 (= CLD_1):

$$PGD_1 = CLD_1 = p_d \, VD_o,$$

where p_d is the percentage effect of protection on the price of the domestic good. e/ The higher price will also induce domestic producers to increase output. Taking this response into consideration yields a producer gain of PGD (= consumer loss of CLD), where:

$$PGD = CLD = p_d \, VD_o \, [1 + (p_d \, se)/2].$$

The revenue/rents can easily be estimated from information already discussed. The upper bound estimate (R_u) is:

$$R_u = p_m \, VM_o.$$

Taking into consideration the reduction in imports owing to import protection yields:

$$R = p_m \, VM_o \, [1 - (p_m \, me)/2].$$

4. Upstream effects

The upstream effects seem at first glance to be easy to quantify. The protected domestic industry expands output, thereby, increasing its demand for upstream inputs. The producers of these upstream inputs will expand output to satisfy this increased demand. This output effect is typically estimated using input-output relationships (i.e., fixed input-output coefficients). Thus, the upstream industry is estimated to expand output in strict proportion to the increase in output of the protected domestic industry. However, any increase in factor rewards in the upstream industries is already included in the producer benefits estimated for the protected industry. f/

If the increase in output in the upstream industry results in higher costs and prices, the protected domestic industry will pay higher prices for the inputs. This effect is already incorporated into the supply elasticity of the protected domestic industry. However, other buyers (i.e., buyers not belonging to the protected domestic industry) of the upstream inputs would lose. For example, a protected automobile industry would benefit the upstream domestic steel industry to the disadvantage of other domestic steel using industries. These adversely affected buyers could be identified using a national input-output table. For practical purposes, however, these effects are likely to be of second order smallness. If these buyers constitute a large share of the demand for the upstream inputs, the protected industry's share of demand for these inputs will be small. This, in turn, implies that the increase demand owing to protection will have a minimal effect on the price of the upstream inputs. Conversely, if the protected industry accounts for a major share of the demand for the upstream input, the adversely affected domestic buyers will be small in volume.

5. Downstream effects

Downstream users of protected inputs are adversely affected by the higher price of imported inputs and the higher price of domestic import-competing inputs. g/ The higher costs imposed on the downstream industries must be passed on to consumers in the form of higher prices. The higher prices induce consumers to divert spending to other goods, including imports of substitute goods. Thus, domestic producers of downstream goods will incur higher costs and will sell a lower volume. Because of the diversion of consumer spending away for the adversely affected downstream product, the producer will not be able to pass the full increase in costs on to buyers in the form of higher prices. Thus, the percentage cost increase (c) will exceed the percentage price increase (p). An upper bound estimate of the producer losses (PDL_u) is:

$$PDL_u = VD_o\ (c-p),$$

where VD_o is the initial value of output by the downstream producer. Taking into consideration the percentage reduction in output (q), the producer loss becomes:

$$PDL_u = VD_o\ (c-p)\ [1 - q/2];$$

where q can be estimated as (p de), where de is the elasticity of demand for the downstream good. Thus, the producer loss (PDL) is

$$PDL = VD_o\ (c-p)\ [1 - (p\ de)/2].$$

An upper bound estimate to the consumer losses (CLD_u) is

$$CLD_u = p\ VD_o,$$

where VD_o is the initial value of domestic output which is sold to domestic consumers. Noting that consumption of the downstream product will decline owing to the higher market price, the consumer loss (CLD) become

$$CLD = p_d\ VD_o\ [1 - (p_d\ de)/2],$$

where de is the demand elasticity.

6. Computable general equilibrium analysis

Computable general equilibrium (CGE) models simulate the interactions among producers and consumers within an economy in markets for goods, services, and primary factors of production (e.g., labour and capital). The models explicitly incorporate interactions among different sectors of the economy, and include upstream/downstream linkages, and intersectoral mobility of primary factors of production. They also incorporate total spending and balance-of-payments constraints within the implications for price levels and exchange rates.

The models are not dynamic; they are, like partial equilibrium models, comparative static analyses. They answer questions such as: How would the domestic economy change if a package of protectionist policies were introduced (or eliminated) with all other government policies and foreign conditions unchanged? The answer is not intended to be a prediction of what would actually happen. But it does quantify the impact on the entire economy of a change in the package of protectionist policies being studied. Depending upon the structure of the CGE model, impact results are also provided for particular sectors of the economy.

A typical CGE model will specify a number of sectors of concern, or "focus" sectors. These would be the sectors of primary concern and selected on the basis of the particular trade-policy package to be examined. The remainder of the national economy would be aggregated into a number of "reference" sectors. Primary resources will flow into or out of the reference sectors, depending upon the impact of the trade-policy package; as a result output levels would change.

In order to operationalize the model, quantitative information is needed on the inter-sectoral flows, value added by sector, international trade flows, and final demands. The model is then "calibrated" to a base year data set to assure that simulations begin from a situation that is consistent with real world events. The model is then shocked by the trade-policy package; new sectoral outputs, imports, exports and consumption are calculated. The

difference between the initial conditions and the resulting simulated conditions constitutes the impact of the policy package. In addition, a national welfare effect can be calculated as the difference between the base year level of national income and the level of income that would be required to purchase the post-simulation level of outputs of all sectors combined; this measure is referred to as the "equivalent variation."

Notes

a/ The price effect for consumers and producers is always the same. The price effects for the revenue/rents effect will also be the same for small countries, i.e., countries whose imports are two small to affect world prices. For a large country, the price effect for the revenue/rents effect will exceed the price effect for consumers and producers.

b/ In the small country case, consumer losses exceed the sum of producer gains and the revenue/rents effect.

c/ This assumes that the country is not sufficiently important to the world market such that a change in imports would affect the world price.

d/ This assumes the small country case.

e/ The quantification of this price effect requires information on the own-price elasticity of demand and the cross price elasticity of demand for the domestically produced good.

f/ The producer benefits estimated for the protected industry include (a) higher profits in that industry, (b) higher wages and salaries in that industry, (c) higher prices for other primary factors used in that industry, and (d) higher factor rewards (including profits, wages and salaries) accruing to the providers of input materials and components, i.e., the upstream suppliers.

g/ If the domestic and imported input are perfect substitutes, the two prices will be identical.

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REPORT OF THE SECRETARY-GENERAL ON ASSISTANCE TO THE PALESTINIAN PEOPLE IN THE LIGHT OF THE CARTAGENA DECISION

Assistance to the Palestinian people

Report by the Secretary-General of UNCTAD

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INTRODUCTION

1. This is the eighth report on assistance to the Palestinian people for the consideration of the Trade and Development Board, prepared in accordance with Conference resolution 146 (VI), and in light of the Cartagena decision to the effect, inter alia, that UNCTAD assistance to the Palestinian people be continued in its current form.[1] As in previous years, the report examines the most recent developments in the economy of the occupied Palestinian territory and recalls some related issues and factors analysed in previous reports and studies, when appropriate, in view of their relevance and continuing influence. It should be noted, however, that the collection of data on recent developments in the economy of the occupied territory continues to be hampered under the prevailing circumstances.

2. Section A of Part I examines the overall policy environment, including the Israeli, Palestinian, regional and international dimensions, influencing the performance of the Palestinian economy. This is followed in Section B by an examination of main recent trends and developments in the Palestinian economy, including an assessment of aggregate and sectoral performance. Section C concludes by identifying some feasible measures for immediate action aimed at promoting the revival of the Palestinian economy in view of the serious deterioration it has witnessed in recent years. Part II of the report reviews the progress of work carried out by the Special Economic Unit (Palestinian people) in the UNCTAD secretariat, in accordance with its mandate and work programmes. Particular attention is focused on progress made in the implementation of the inter-sectoral project initiated by the UNCTAD secretariat in 1990 on "Prospects for sustained economic and social development of the Palestinian territory of the West Bank and Gaza Strip".

Part I
RECENT DEVELOPMENTS IN THE ECONOMY OF THE OCCUPIED PALESTINIAN TERRITORY

A. Policy environment influencing the Palestinian economy

3. Recent developments in the economy of the occupied Palestinian territory continue to reflect the cumulative impact of the constraints under which the economy has been operating. The effect of the Palestinian uprising (Intifada) and attendant measures taken by the Israeli authorities have continued to influence the performance of the Palestinian economy during much of the period under review. Meanwhile, the continuing adverse effects of the 1990/1991 crisis in the region have brought about further deterioration in domestic production and sources of income, especially factor income, merchandise export revenues and private and public unrequited transfers to the territory.[2]

4. Consequently, the Palestinian people have increasingly relied on their own human and material resources and creativity in their efforts to revive and safeguard their economy. This new drive, which was initiated in the late 1980s, was intensified at different levels in the occupied territory to bolster institution-building and self-reliance in economic and social activities. These efforts have been guided to an increasing extent by locally perceived and devised concepts, goals and strategies focusing on the wide range of local problems and needs. Palestinian economic initiatives since 1987 include the emergence of the "household economy", the disengagement of Palestinian labour from work in Israel, the reduced consumption of imports coupled with efforts at boosting domestic production in agriculture and industry (referred to locally as the policy of "popular protection"), as well as the increased emphasis on community-based, self-help programmes sponsored by grass-roots movements (i.e., "popular committees"). While these efforts have met with some success, especially as 'trial runs' for more comprehensive and balanced development endeavours, their overall impact at the community and other levels, which accelerated noticeably after the beginning of the uprising in 1987,[3] remain dwarfed by the scale of economic and social deterioration in the occupied territory. Continued Israeli punitive and restrictive measures, coupled with the increased isolation of the occupied territory from the Arab hinterland following the 1990/1991 crisis in the region, have hampered Palestinian development initiatives. This has been especially marked in the most disadvantaged areas of the territory, such as remote rural regions of the West Bank and throughout Gaza Strip.

5. Notwithstanding recent positive developments that are noted below, the main elements of the policy environment still in effect comprise the following:

(a) The Israeli occupation authorities have confiscated and expropriated vast tracts of land in the occupied Palestinian territory (including public, private and religious endowment categories of land), and established full control over the exploitation and use of its underground and surface water resources;

(b) This in turn facilitated the establishment of a large number of Israeli civilian and military settlements throughout the territory, supported by modern physical and economic infrastructures which favoured the development of these settlement enclaves, with little regard for the needs of the Palestinian people. Recent pronouncements by the Israeli authorities suggest that they may soon slow down or halt this process;

(c) Evidence of deliberate policy measures by the Israeli authorities to promote or assist Palestinian economic and social development, during the period is limited to those noted below;[4]

(d) One striking aspect of Israeli rule in the occupied territory has been the use of Military Orders and Ordinances to regulate many aspects of life. These Orders, inter alia, provide the framework for the application of collective punishments, especially since the Palestinian uprising (Intifada) that began in late 1987. These measures, include a wide range of practices, such as:

destruction of houses and other buildings; uprooting of trees and destroying crops; destruction and confiscation of business or personal property; withholding or refusing business licenses and travel or other permits until 1992; limitations on the movement of capital, goods, workers and other vital communications; long-term curfews affecting whole sectors or regions; and, the arbitrary collection of a variety of taxes, fees and fines;[5]

(e) Many measures enacted by the occupation authorities in the wake of the Palestinian uprising since 1987 touched negatively on Palestinian economic activity, including production, income, consumption and investment.[6]

6. Since 1991, in the wake of the severe impact upon the Palestinian economy of the crisis in the Middle East region including losses estimated at $500 million[7] the Israeli occupation authorities have taken some tangible steps towards liberalization of aspects of the economic policy environment in the occupied territory. In 1991 and 1992, a number of measures were initiated to provide incentives for new investment in local industry, especially in the Gaza Strip, as well as to relax some of the harshest regulations introduced since 1987.[8] These included: tax exemption for up to six years for new industrial investments; issuing business licenses for 72 new enterprises and retroactively for 337 existing enterprises; reforming elements of the personal income taxation system; relaxation of the strict restrictions imposed for many years on the flow of capital into the occupied territory; permission to open two more branches of the Cairo-Amman Bank; and suspension of the so-called "clearance procedures", whereby up to seven separate clearances from different Israeli-controlled departments were required for issuing any official documents to individuals or enterprises.

7. Certainly, these measures reflect an appreciation by the Israeli authorities of the magnitude of the problems confronting the Palestinian economy and the extent to which it has deteriorated in recent years. They furthermore indicate a readiness to consider practical steps to improve some of those aspects of the policy environment that affect the overall Palestinian economic and social situation. Because of their growing desire to limit the entry of Palestinians to Israel (mainly for security reasons) the Israeli authorities are encouraging domestic employment alternatives for the tens of thousands of Palestinians who continue to depend on jobs in Israel and for those who were forced as a result of the Middle East crisis to return home. Also, some Israeli investors were reported to view the encouragement of Palestinian sub-contracting industries in the occupied territory as a useful means of improving the international competitiveness of Israeli products, and of solving the problem of the relatively higher cost of employing Palestinians in Israel than in the territory (owing to reduced transportation and social welfare costs).[9] There seems also to be a recognition that from the Israeli point of view, encouraging economic development has become essential to contain the Intifadah.[10] These measures were most recently supplemented by a fundamental change of policy imposing a freeze on privately and/or publicly financed construction of Israeli settlements in most areas of the occupied Palestinian territory.[11]

8. At the same time, observers have pointed to the potentially disruptive effect of granting too many business licenses too quickly in the absence of adequate infrastructures, feasibility investigation or developmental priorities. It has also been noted that the factories receiving the approval of Israel all use Israeli raw materials and thus will perpetrate and strengthen the dependence of the Palestinian economy upon Israel.[12] It has, therefore, been suggested that "important as these measures are, it is, nevertheless, difficult to conclude that they will have any major impact on the ailing economy of the West Bank and the Gaza Strip - at least in the short run",[13] but that it was to be hoped that additional, wide-ranging measures would follow in order to consolidate and strengthen the impact of those already introduced. This impact may on the contrary be reduced if restrictive policy measures, such as resorting to collective punishments that have primarily had an adverse effect on the Palestinian economy, were continued. Such measures were manifested in the total Israeli blockade of the movement of goods and people from and to the Gaza Strip (including Palestinians working in Israel) for over three weeks in May-June 1992, following

violent incidents there and in Israel. This resulted in losses of income and food and shortage of medicine and other hardships imposed on the whole population of Gaza Strip.[14] The disruptions caused by this blockade were felt throughout the economy of Gaza Strip, necessitating the distribution of emergency food supplies by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) to those worst affected.

9. In these circumstances, and bearing in mind the modest magnitudes of official aid and migrant workers' remittances from traditional sources, the Palestinian people have turned increasingly to the international community for support and sustenance. Indeed, developments in the region in 1991 and 1992 have given rise to expectations of an increasing role for the international community in relieving the plight of the Palestinian people. There is widespread hope that the Middle East peace process and the related negotiations launched in 1991 could lead to a solution which will fulfil the aspirations of the Palestinian people, thus providing the basis for a new era of peace and regional and international cooperation on a variety of vital issues.

10. These expectations have given rise to a wide debate in the occupied territory about the need for, and desirable terms of, international aid from multilateral, bilateral and/or non-governmental sources. As an illustration of local attitudes to foreign aid, it has been noted that the "development paradigm articulated by Palestinians not only defines new objectives and goals for indigenous economic development but defines new terms for the participation of foreign aid donors which include, among others, the total elimination of Israeli government participation in all foreign assistance programs directed to the Palestinian community. The steady deterioration of the Palestinian economy, furthermore, underscores the urgency of local need and the added challenges now confronting foreign aid initiatives in the occupied territories".[15]

11. Interest in these issues has revolved especially around the projects and programmes funded and/or managed by a variety of sources including the United States-based private voluntary organizations, United Nations agencies and the Commission of the European Community (EC).[16] For instance, projects in the occupied territory funded in the past by such sources have been considered by many local experts to be overly concentrated on infrastructural or humanitarian relief areas, rather than in spheres capable of boosting domestic productive capacity and performance.[17] It has been argued, however, that there are positive operational and policy aspects to some of these international aid programmes that should not be overlooked, and which should encourage Palestinian beneficiaries to develop the necessary capacities for dealing positively with the different programmes.[18] It has also been pointed out that past support for infrastructural activities in the occupied territory was necessary to help provide a viable basis for development.[19] The United Nations Development Programme (UNDP), for example, is increasingly directing efforts towards "productive activities" and the creation of an "autonomous economic base for the territories".[20] Meanwhile, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) has launched a significant new project to help Palestinians obtain loans from local financial institutions for the initiation of viable projects, especially in industrial and service branches.[21]

12. The expectation of increased international assistance has encouraged the emergence of competing local project proposals which are often inadequately considered, owing to the absence of an appropriate institutional framework for rationalizing and prioritizing proposals.[22] This was most evident with respect to local response to the ambitious emergency aid programme announced by the Commission of the European Communities in March 1991 as compensation for losses incurred during the 1990-1991 crisis in the region. A number of complications delayed the delivery of the funds designated under this programme (ECU 60 million, equivalent to some $77 million over and above the Community's regular aid programme to the territory). An initial problem was reported to have been Israeli insistence on having a final say on how funds were to be distributed.[23] A related issue was the official status of the Community official intended to supervise the technical and

humanitarian aspects of disbursement of EC aid.[24] Another source of delay in the effective disbursement of the emergency aid programme was the need to ensure its optimum impact based on well-defined priorities and programme goals. The absence of a clear consensus on this issue, together with the weakness of the domestic institutional set-up and the infrastructure for absorption of international assistance, proved to be important complications.

13. By mid-1992, final arrangements had been made to disburse the bulk of the aid package through local Palestinian institutions, distributed approximately as follows:[25] $38 million for cooperative and other housing schemes, $19 million for industrial, agricultural, tourism and export promotion loans, $5 million for secondary education, and $15 million for hospital construction. This active involvement inside the occupied territory was accompanied by a call in September 1991 by the European Parliament for, inter alia, investigating means of expanding Community trade with the occupied territory and ensuring that European products have free access to the Palestinian market without administrative and/or military interference by the Israeli authorities.[26]

B. Main trends and developments[27]

1. Natural and human resources

14. Trends in vital areas of the Palestinian economy have continued to have an adverse effect on the productive sector. **Land**, as the mainstay of the economy, has been increasingly removed from indigenous Palestinian control and use.[28] By the end of 1991, at least 67 per cent of the West Bank and 40 per cent of Gaza Strip had been expropriated or otherwise placed under the control of Israeli military authorities. The pace of expropriation grew after the beginning of the Palestinian uprising, and accelerated after January 1990.[29]

15. Some 65 per cent of the total confiscated area is devoted to settlement purposes, while much of the rest has been turned into closed military areas.[30] By the end of 1991, the Israeli authorities had established at least 156 civilian settlements in the West Bank and 18 in the Gaza Strip (i.e., excluding paramilitary outposts). The Israeli settler population had by then reached 250,000. The 1990-1991 growth in settler population is estimated at between 9 and 13 per cent, fuelled by the arrival of new immigrants as well as Israelis moving from areas of central Israel into the West Bank, from a variety of economic and ideological motivations.[31] Using official data, it has been calculated that since the start of settlement activities and until the end of 1991 a total of at least $14 billion had been invested in the construction of housing units, roads and other elements of the Israeli settlement infrastructure in the occupied Palestinian territory.[32]

16. The recent period until mid-1992 witnessed a further drive to expand settlements in the occupied territory, establish new ones and increase their population through offering a variety of incentives to new inhabitants, including new immigrants to Israel.[33] A new settlement programme, the so-called "Stars Plan", had envisaged the establishment of a dozen new urban settlements, including many in the northern West Bank along its pre-1967 border with Israel. Another important plan under implementation was the continued expansion of Maaleh Adumim, which recently became the first Israeli "city" in the occupied territory,[34] intended to link up with settlements encircling East Jerusalem and with other settlements planned for construction to the west of the Palestinian city of Jericho. By the early 1990s, these and other Israeli suburban settlements in the occupied territory had come to constitute settlement corridors which separate Palestinian population areas from each other. The West Bank faces the prospect of sub-division by contiguous corridors of Israeli settlements.[35] Israeli officials have recently been quoted as saying that Israeli settlement activity, until mid-1992, was aimed at boxing in Palestinian areas, establishing Palestinian "islands of autonomy" and preventing Palestinian "territorial congruity".[36] Reportedly, by 1993 a total of another 50,000 Israelis may be settled in these settlements that are under construction.[37]

17. On the other hand, as part of the efforts related to the peace process in the Middle East, the new Government of Israel in mid-1992 declared a freeze on the construction of all privately and/or publicly financed new settlements, except for housing and related projects already under construction in existing Israeli settlements, most of which will continue. Nevertheless, this marks a significant change in the settlement policy of Israel, which it is hoped will contribute to confidence-building between Israel and the Palestinian people and thus to the success of the peace negotiations.

18. The status of **water resources** continues to be one of the most sensitive issues affecting Palestinian economic and social development in the occupied West Bank and Gaza Strip, and is a vital issue throughout the region. All aspects of water resources exploitation, distribution and management continue to be regulated by military orders. Accordingly, all surface and underground water resources have been considered public property and authority over them continues to be vested with the Israeli military commander. Of the total annual supply of around 700 million m^3 in the West Bank and 60 million m^3 in Gaza Strip, between 515-530 million m^3 are transferred for use by Israel and its settlements in the territory.[38] This water distribution policy and over-pumping in some areas have resulted in severe pressure on Palestinian water resources and their availability to meet growing needs. In the Gaza Strip, underground water levels have fallen below the level of natural replenishment. This has allowed polluted and salt water to reduce the quality of water available for household and agricultural purposes. Moreover, inadequate and poor institutional, technical and managerial requisites at all levels have continued to contribute to increasing waste and high cost of water for both domestic and commercial use.

19. The "return migration" stimulated by the reduced demand for Palestinian labour services in regional markets is exerting an important influence on the evolution of the Palestinian **population** in the West Bank and Gaza Strip. The most salient feature of the Palestinian population of the West Bank and Gaza Strip continues to be its high rate of growth, estimated at above 3 per cent per annum since 1987 reaching 4.6 per cent in 1990. By 1992, the total population of the territory is estimated to have reached at least 1,827,000, (as against 1,705,000 estimated for 1990).

20. These demographic dynamics have continued to constitute the main determinants of the supply of the Palestinian **labour force** in the occupied territory. The total labour force of the territory was estimated at 307,700 in 1990, representing an increase of 6 per cent as compared with 1989. Preliminary data for the last quarter of 1991 suggest that the labour force had increased by 4.7 per cent during the year to reach 322,000. According to Israeli statistics, employment in 1990 had reached a total of 296,500 or 96.4 per cent of the Palestinian labour force in the occupied territory. In 1991, total employment had reached an average of 287,000. In 1990, a total of 189,000 or 64 per cent of all Palestinians employed were reportedly working in the occupied territory, 8 per cent more than in 1989. Estimates for the first half of 1991 indicate an overall 6 per cent decrease compared to the same period in 1990, much of this experienced in the West Bank owing to developments in agriculture.[39]

21. As for **employment in Israel**, a total of 108,000 or 36 per cent of all Palestinians employed in 1990 were considered to have worked in Israel, which reflects a marginal decline compared to previous years.[40] This decline was coupled with a fall in labour input (work-hours) in 1988-1990, owing to a combination of factors, such as: the recent Palestinian initiatives to boost domestic employment, the widespread "absenteeism" of Palestinians from the Israeli labour market, and the Israeli restrictions controlling the movement of Palestinian workers to and inside Israel. However, according to Israeli data, by the fourth quarter of 1991, 121,000 Palestinians had come to work in Israel -10 per cent more than in 1990 and more than at any year since 1967; labour input is also reported to have grown by 32 per cent over 1990, mostly erasing the declines of the preceding years.[41]

22. A major structural constraint of the Palestinian economy continues to be the gap between the growing supply of the available labour force and its limited capacity to absorb these resources in gainful employment. Against this background, work opportunities in Israel are important as an alternative to those in the constrained domestic labour market. Thus unemployment levels have been at their lowest when employment in Israel was peaking, reflecting the close relationship between Palestinian employment rates and expansion in the Israeli economy.

23. There are divergences between official data on unemployment for the 1988-1991 period and estimates from other sources. According to Israeli statistics, the unemployment rate only began to rise in 1990, reaching around 3.6 per cent for both the West Bank and Gaza Strip in 1990.[42] An alternative estimate of actual unemployment (as opposed to "registered" unemployment) for 1990 indicates rates of 13-15 per cent in 1990, taking into consideration the "grey area" of underemployment revealed in Israeli statistics under the heading "employed persons, temporarily absent from work".[43] Official Israeli figures for 1991 indicate a rise in unemployment to over 10 per cent in the West Bank, with a continued level of 4 per cent for Gaza Strip.[44] Palestinian and international observers, however, assert that Palestinian unemployment was between 25 and 40 per cent of the labour force in 1991.[45]

2. Aggregate economic performance

(a) Domestic product and main features of sectoral performance

24. The setbacks sustained by the Palestinian domestic economy during the period 1988-1990 were intensified by the adverse impact of the crisis in the region and the constraints affecting production. The indications are that as a result of the fall in gross domestic product (GDP) in the first part of 1991 and the sluggishness of economic activity thereafter, GDP remained at the low levels reached by 1990.[46]

25. The behaviour of domestic supply has continued to reflect the erratic and unreliable performance of its sectoral components, with the two major productive sectors displaying growth rates weaker than those of other sectors or GDP as a whole. In addition to the effects of Israeli restrictions, these sectors continue to suffer from a number of constraints, including limited credit facilities, inadequate infrastructures and the virtual absence of policy co-ordination in the economy as a whole. **Agriculture**, which had seen its contribution to GDP decline from 36 per cent in 1972 to 23 per cent in 1987, has continued to operate on the basis of decreasing cultivated area and limited water supply, coupled with low productivity, cyclical fluctuations, insufficient diversification, and often unequal competition with Israeli imports to the occupied territory, which receive generous subsidies from the Israeli Government (up to 50 per cent of cost).

26. Notwithstanding these constraints, Palestinian initiatives since 1987 have encouraged some recovery of agricultural output and employment, with growth particularly noted in the production of certain staple crops as well as in livestock and poultry. By 1990, agricultural output was estimated at $444 million as compared to $335 million in 1987 (in constant 1990 prices). However, during the 1991/1992 season, agriculture in the occupied territory (as well as in neighbouring countries) was adversely affected by the unprecedented cold winter. Citrus farmers in Gaza Strip, for example, had begun the season in the hope of recouping the losses incurred in 1990/1991, expecting some 120,000 tons of output with adequate prices to at least permit covering production costs.[47] But the frost, snowfall and floods experienced in the first months of 1992 destroyed vegetables, fruits and livestock, and caused topsoil erosion, as well as destruction of terraces and equipment; in many areas, it was not possible to plant seeds for the summer crop.[48] In the cash-crop producing area of the Jordan Valley, up to 80 per cent of crops were lost; Gaza Strip citrus exports to the European

Community were at only 10 per cent of their 1991 levels.[49] Unlike farmers in neighbouring Jordan and Israel, Palestinian farmers are not insured and receive no government aid; the losses are estimated at $55 million in the West Bank and $22 million in Gaza Strip.[50]

27. The **industrial** sector, including manufacturing and extracting industries, continues to provide a small share of domestic product (under 10 per cent) and is mainly concentrated in textiles, clothing, leather goods, construction materials and food processing. The bulk of manufactured goods continues to be marketed locally in the occupied territory, with Israel as the main foreign market. Though a small proportion of manufactured exports still goes to Jordanian and other markets, trade in that direction remains in surplus. Developments in this area continue to be dominated by its integration into the more sophisticated and highly protected Israeli industrial sector, in a de facto customs union between Israel and the occupied territory.[51] Israeli demand for final and intermediate Palestinian manufactures effectively favoured the growth of Palestinian branches producing low-cost consumer goods and others which performed specific sub-contracting tasks for Israeli industry. In some other cases, established traditional local and export markets provided sufficient stimulus to continue activity, though with minimal growth. Consequently, many Palestinian industrial establishments which lacked market options or were unable to achieve economies of scale eventually closed down.[52] West Bank industry in particular suffers from a chronic under-utilization of productive capacity, estimated at between 30 and 70 per cent,[53] thus reducing income generation, labour absorption and technological advance.

28. Since 1987, industry has nevertheless benefited from Palestinian efforts to strengthen the productive base and to shift consumer preference to Palestinian products, which helped to weaken the effect of unequal competition. Some Palestinian manufacturing firms experienced unprecedented growth rates, and others which were at first unprepared for the increased demand resulting from the local Palestinian boycott of Israeli products, eventually acquired a significant market share at the expense of Israeli products in the occupied territory, especially in the food and textile branches. The West Bank shoe industry, for example, began primarily as a sub-contractor for Israeli industries, but since 1987 has been able to establish a competitive advantage and to edge Israeli products out of the domestic market while exporting 40 per cent of production to Israel itself.[54] Moreover, Palestinian industrialists were recently encouraged to increase investment in new production lines and equipment. The recent move by the new Israeli Government to rescind government incentives from industrial plants in Israeli settlements in the occupied territory[55] should further help Palestinian industrial enterprises compete with Israeli products originating in these settlements, thus reducing idle capacity and increasing employment and income. Incentives, such as tax relief and other measures referred to in section A are also aimed at helping to promote the industrial sector.

29. **Construction** (classified in national accounts series to include water and electricity works) has been the leading sector for many years in terms of real growth achieved. Its share in domestic production doubled from 9 per cent in 1972 to 18 per cent in 1987. This growth has been fuelled by high investments in residential building that were required to meet the growing housing needs, and which were financed mostly by earnings and transfers from abroad. During 1980-1987, the contribution of the housing sector to gross domestic capital formation increased from around $300 million to $450 million, representing an average of around 72 per cent of total gross domestic capital formation. Since 1987, the construction sector has witnessed a sharp decline in output, owing mainly to the reduction in remittances and private transfers as a result of the continuing adverse effects of the Middle East crisis.

30. The **housing** situation continues to be one of the most serious economic and social problems in the West Bank and Gaza Strip.[56] The confiscation of land and other resources, coupled with restrictions on land use, have hampered the proper development of the housing sector. Inadequate building codes, regulations and standards represent another constraint to large-scale housing or

construction activities. Lack of institutional finance continues to be a major impediment to the development of the housing sector. For the first time since 1967, Israeli planning authorities in 1992 approved a zoning plan which would allow private Palestinian investors to build up to 7,500 badly-needed new housing units, but do not provide for government funding or financing facilities.[57]

31. The Palestinian housing sector is characterized by high occupancy densities and inadequate facilities and infrastructures. It is estimated that around one third of all Palestinian households endure occupancy densities exceeding 3 persons per room, and that more than 6 per cent of all families suffer from densities exceeding 5 persons per room. Around one quarter of all the households have no running water, one fifth have no electricity and over one third have no bathrooms. In recent years, increases in population coupled with rapidly deteriorating economic conditions and the returnees from the oil-producing countries of the Middle East, especially Kuwait, have encouraged many families in urban, rural and refugee communities to resort to the rehabilitation and upgrading of abandoned or old buildings as well as the expansion of existing buildings, both vertically and horizontally. Finance continues to be a limiting factor. Building materials constitute the single largest input to construction and may account for 40-50 per cent of the total cost and as much as 80 per cent of the direct cost of housing construction. While some of the basic building materials are, or could be, produced locally, a large proportion of basic items are at present only available through imports.

32. **Services**, grouping both public/community services as well as tourism, trade, transport, and other private service activities, accounted for around 50 per cent of Palestinian GDP in 1987. Of the two components of this sector, the public and community services branch has displayed steady growth. The performance of tourism, trade, transport and other services, which together comprise the largest sector in the occupied territory, continues to reflect the relative strength of the retail and wholesale trade activities fuelled by rising imports, private consumption, and transport services.

33. One vital service sector in the occupied territory whose full potential remains stifled by the impact of occupation is **tourism**.[58] The Palestinian territory has a clear and enduring comparative advantage in this area, reflecting rich historical and religious attractions, in a setting of natural beauty. Israeli military regulations, entry formalitites and the predominance of Israeli tourism enterprises have operated to the detriment of Palestinian tourism enterprises. The related sector of transport and communications is incapable of ensuring the degree of efficiency and comfort desirable for profitable tourism activity. The tourist industry in the occupied territory has become a sub-contractor to Israeli and other tourism enterprises active internationally. It has in any case suffered as a cohesive and growth-stimulating sector from the effects of the recent regional crisis.

34. The **merchandise trade** of the occupied territory continues to reflect the integration of the Palestinian economy with that of Israel. As the major trading partner, Israel continues to absorb around 65 per cent of Palestinian exports and to supply close to 90 per cent of its imports. The success of the Palestinian import substitution drive since 1987 in reducing the trade deficit has been limited. While it was possible to replace or forgo many consumer products imported from Israel, it has not been possible to substitute for imports of inputs, capital goods and raw materials. The territory's trade with all its partners, except Jordan, has continued to register significant levels of deficit.

35. While Israeli agricultural and manufactured products continue to enter freely into markets in the occupied territory, Palestinian exports to Israel face a range of restrictions. For example, the new Government of Israel has banned agricultural exports from Gaza Strip from entering Israel since they would be in direct competition with Israeli products.[59] In view of the tariff and non-tariff barriers imposed on exports from the occupied territory, Palestinian exporters have resorted in recent years to a search for new markets through preferential treatment. While these efforts have provided

access to some new markets, the absence of adequate marketing facilities, both in the occupied territory and abroad, has hampered greater direct exports to these new markets. The inadequate domestic and international transport and communication system, coupled with cumbersome regulations and procedures have continued to weaken the role of trade in the process of economic growth and development. The absence of financial support, including export credits and guarantees, import and other trade-related financing, remains another important obstacle. Palestinian trade with Arab countries is equally constrained by regulations reflecting domestic economic considerations as well as the provisions of the Arab boycott regulations on trade with Israel. Moreover, the disruptions caused since late 1990 in the territory's trade with its traditional Arab markets continue to affect Palestinian exports to these markets. Exports to and through Jordan, which declined by some 20 per cent in 1990 over 1989, stood at only 5 per cent of total exports in 1991. However, the overall deficit in Palestinian trade with Jordan and the rest of the world, excluding Israel, had worsened in 1991, standing at $95.5 million as against $87 million in 1990 and $66 million in 1989. This growing overall deficit reflects the deterioration in the territory's trade with the rest of the world. Despite modest increases in recent years, the exports of the territory to the rest of the world, excluding Israel and Jordan, amounted in 1991 to only 83 per cent of their level in 1980.[60]

36. With regard to **public finance**, available data highlights the importance of direct income taxes and related transfers flowing to the Israeli Government from the occupied territory. Whereas indirect taxes on production (i.e., value added tax) are identifiable as the difference between GDP at factor cost and at market price, other indirect taxes are not, in particular customs duties levied by the Israeli authorities on imports to the occupied territory from Jordan and via Israel. The complex nature of the fiscal and monetary system in the occupied territory and the relation between local government revenues and budgets and the Israeli Government's fiscal practices in the territory are the subject of a wide literature. Many observers estimate that, over and above the reported flow from the territory to Israel of revenues from direct taxes and indirect taxes on production, significant financial benefits continue to accrue to Israel.[61]

(b) National income and expenditure

37. Total expenditure on GDP, which registered noticeable increases up to 1987, has declined in recent years. The decline in economic activity and income encouraged a compression in private consumption and, coupled with the high rates of population growth, resulted in a drop in per capita consumption levels of about 40 to 50 per cent between 1987 and 1990. Despite its declining trend in recent years, private consumption has continued to outstrip GDP, resulting in a continued level of negative domestic savings. Public consumption expenditures, which cover salaries and administrative expenses of local education, health, sanitation, utilities and other social services, have shown modest increases in recent years at the expense of public investment, the level of which has dropped to that prevailing in the late 1970s.

38. Turning to the characteristics of investment, the bulk of these flows is accounted for by the Palestinian private sector. As for its composition, private investment continues to cover two types of flows, namely social overhead investment (termed in official statistics as "Building and Construction Works") and directly productive investment ("Machinery and Equipment"), with the former constituting the largest part of fixed private investment. In the 1980-1987 period, 88 per cent and 82 per cent, respectively, of the fixed capital formation in Gaza Strip and in the West Bank went to the former type of investment.

39. With domestic output and exports showing few gains, external financial resources in the form of net transfers (NTR) and net factor income (NFI) contributed significantly to gross national product (GNP) and gross national disposable income (GNDI) levels. NFI, the main component of which is earned by Palestinians employed in Israel, allowed GNP to grow at a rate equal to or above that of domestic output and by 1987 equalled almost one third of the West Bank's GNP and slightly less

than half of that of Gaza Strip. Since 1987, the reduction in the total supply of Palestinian labour to the Israeli economy (especially from Gaza Strip) and the falling trend of migrant workers (to Jordan and beyond) have combined to produce important falls in the NFI levels, and contributed to the decline in per capita GNP through 1991.

40. Net transfers from abroad constitute an important supplementary source of external income available to the occupied Palestinian territory. Its main components are: transfers to the local administration from Palestinian, Jordanian and other official Arab sources; participation by the Israeli Government in the budget of the Civil Administration; transfers from international aid agencies, mainly UNRWA; and most importantly, remittances from workers residing abroad for a long period, particularly those working in the Arab countries of the Gulf. The NTR levels rose significantly in 1988-1989, particularly in Gaza Strip, but are estimated, as a result of the crisis in the Middle East region, to have fallen substantially in the territory in 1990 and 1991, with the West Bank receiving less transfers than in 1987.

C. Concluding observations

41. The preceding paragraphs confirm the necessity of action to eliminate the constraints that continue to affect the Palestinian economy. The current search for a just and lasting solution to the conflict should be accompanied by an effective role by the international community in providing the Palestinian people with the assistance they need for the revival of their economy. Urgent needs are evident in all sectors, both in terms of policy guidance and operational assistance. Well-conceived and clearly targeted action now could stem economic decline and social fragmentation and lay the basis for the recovery and sustainable growth of the Palestinian economy.

42. There are vital prerequisites related to the beneficiaries "absorptive capacity", i.e. the ability of the Palestinian people to play a determining role in helping to ensure within the existing institutional framework the speedy and efficient delivery of aid where it is most needed. Equally important is the need to establish a supportive policy environment in which the Palestinian people have the necessary freedom to elaborate and implement their development policies and programmes.

43. A number of immediate measures for the revival of the Palestinian economy in the West Bank and Gaza Strip are briefly identified in the following paragraphs. Some of these require action by the Israeli authorities; others address themselves directly to the Palestinian people and also call for international support. These measures are not intended to cover the whole range of immediate needs, nor to address the deeper structural problems and requirements for sustained economic development. Nevertheless, they aim at providing a flexible action-oriented framework for a selected range of policy measures, project formulation and other programming efforts amenable to implementation in the prevailing circumstances. They are based on two objectives: to deal with the pressing current needs, and to prepare the ground for a comprehensive programme for promoting the sustained development of the Palestinian economy.

1. Main common issues affecting economic sectors

44. The performance of major economic sectors (i.e., agriculture, manufacturing and mining, merchandise trade, services including tourism, money and banking and public finance) is affected by a set of common problems. Six such issues are identified below.

(a) Legal framework

The Palestinian economy and its institutions need to be freed from arbitrary measures that distort the structure and performance of the economy. As an initial step, the legal framework governing various aspects of the territory's economy should be reviewed in the light of the immediate needs of the economy.

(b) Institutional framework

(i) The existing Palestinian facilities in the West Bank and Gaza Strip involved in the compilation, processing, analysis and dissemination of data on the economy of the territory require strengthening. To this effect, appropriate training programmes should be organized by Palestinian training institutions to upgrade their technical capabilities.

(ii) Until a statistical facility is created to meet the specific data needs of different sectors, the Federation of Palestinian Chambers of Commerce and Industry could sponsor efforts to initiate a data-base on the Palestinian economy. International organizations could provide the necessary assistance, including the provision of hardware and software facilities as well as appropriate training programmes to develop competent cadres for data gathering, processing, analysis, and dissemination. The ultimate aim of such assistance should be to establish the nucleus of a Palestinian statistical facility eventually covering all economic and social sectors in the West Bank and Gaza Strip.

(iii) There is a growing need to improve the performance and efficiency of Palestinian research centres as well as scientific and other institutions, coordinate their work and avoid duplication. Assistance for this purpose should be sought from the organizations of the United Nations system and regional institutions as well as universities and research centres in various countries.

(c) Marketing

(i) There is a growing need for developing an adequate facility to enable Palestinian producers and exporters to benefit from existing export markets and especially from the concessions that, so far, have been granted to certain Palestinian products entering these markets. In that connection, it would help to develop an integrated system of quality control, grading, selecting, packing and labelling as well as storage facilities. The initiative of the UNCTAD secretariat in regard to an International Trade Centre UNCTAD/GATT project for the establishment, with UNDP funding, of an export promotion and marketing centre, should be pursued.

(ii) Traditional Palestinian trade with the Arab hinterland has been the weakest link in the territory's external sector. Palestinian trading institutions could initiate, under the aegis of the League of Arab States, the necessary contacts with importers in the region aimed at facilitating the flow of Palestinian exports.

(iii) Palestinian municipalities could assist in improving the existing commercial transport infrastructures and cold storage facilities by furnishing land, buildings, storage areas and equipment.

(iv) As a step towards streamlining administrative and other procedures governing Palestinian external trade, existing Israeli measures and procedural arrangements that adversely affect Palestinian external trade should be lifted. Relevant international and regional organizations could help by encouraging Israeli authorities to ease existing non-tariff barriers imposed on Palestinian trade.

(d) Employment

(i) The relevant Palestinian institutions, in particular the chambers of commerce and industry and local trade unions, should be encouraged - on the basis of a survey especially among the Palestinian returnees of the exact numbers of the unemployed, their qualifications and experience - to concentrate on the creation of appropriate employment opportunities in various areas of the Palestinian economy. The proper placement of returnees from the oil-producing countries of the region could help in initiating new industries and businesses in the territory.

(ii) Simultaneously, Palestinian institutions could conduct workshops and training programmes to facilitate the absorption of the unemployed in the relevant areas of the Palestinian economy.

(iii) Improving the orientation and quality of education and training in public schools and vocational institutions could also help reduce structural unemployment.

(iv) More emphasis could be placed on employment generation projects in fields such as agro-based industries, housing, social welfare facilities, infrastructures, cottage industries and tourism.

(v) Palestinian labour unions and employers could initiate a dialogue on the level of wages and on employment practices that have contributed to unemployment and related problems.

(e) Financing

(i) As a step towards the full revival of the Palestinian banking system, the restrictions imposed on the Palestinian banking and financial system since 1967 could be further relaxed so as to facilitate the rendering of necessary banking and financial services to the economy. More local Palestinian banks and financial institutions, including insurance companies, should be allowed to reopen and to engage fully in financial resource mobilization and intermediation.

(ii) Efforts should also be made to create specialized credit institutions catering to the present and long-term capital needs of vital sectors such as agriculture, industry, and housing.

(iii) Efforts should be specifically focused on the establishment of a development finance facility capable of mobilizing domestic and external resources and allocating them to developmental projects within the frame of a well-designed programme.[62] The assistance of relevant international organizations could be solicited in the design and creation of such a facility.

(iv) In parallel with these efforts, attention should be given to improving the quality of existing banking services, by streamlining procedures and up-grading technical and managerial capabilities through appropriate workshops and training programmes.

(v) To the extent possible, branches of foreign banks could also be allowed to reopen so as to complement the services of local credit institutions, to facilitate the flow of external resources into the West Bank and Gaza Strip and to influence positively the performance standards of local financial institutions as well as encouraging the observance of international norms of banking and credit operation in the territory.

(vi) The creation of other forms of credit facilities could be seriously reviewed in order to meet immediate working capital requirements, especially in new businesses, building on the expansion of the experience gained so far in the management of revolving funds along well-developed procedures and standards of performance and in a variety of other saving and credit schemes.

(f) Technical assistance

(i) The above-mentioned development finance facility could serve as an appropriate mechanism and focal point for the preparation of a consolidated assessment of technical assistance needs at all levels. Particularly urgent areas for such assistance are engineering, accounting, marketing and agro-industries.

(ii) The international community could intensify its technical assistance in these and other areas and obtain Israeli cooperation in facilitating the flow of such assistance to the West Bank and Gaza Strip.

2. Infrastructures and natural resources

45. There is a close interaction between socio-economic sectors on the one hand, and infrastructures and natural resources on the other (broadly classified here to include transport and communications, construction and housing, public utilities, energy, and land and water resources). An integrated approach is desirable to address the pressing common needs of these areas.

(a) Some common issues

(i) The relevant Palestinian institutions need to coordinate their efforts to establish an adequate data-base on the infrastructures and natural resources of the West Bank and Gaza Strip.

(ii) The legal framework covering infrastructural and resource development activities should be further developed, relying on the appropriate local authorities to provide the necessary guidelines for regulation and for improving the economic environment.

(iii) Wide-ranging and well-coordinated efforts in this area could also help develop the human resource base, including managerial, administrative, technical and other skills, through local training institutions and with the assistance of international organizations, as appropriate.

(iv) Palestinian beneficiaries should participate, to the extent possible, with international and Arab financial sources, in mobilizing the considerable financial and other resources required to meet the immediate needs of the Palestinian infrastructures (both physical and institutional) and ensure the preservation and rational exploitation of natural resources.

(b) Transport and communications

(i) A local Palestinian transportation and communications body is needed to address systematically the rehabilitation and other needs of local transport and communications networks. Areas requiring urgent attention include: adequate and efficient maintenance services; extension of transport and communication services to remote areas; planning and programming future needs; developing adequate skills; introducing new concepts in controlling transport by providing traffic control devices, road signs and other means of regulating the flow of transport; introducing a periodic inspection policy; coordinating the efforts of existing public transport enterprises and new ones, as appropriate.

(ii) Facilities for Palestinian radio and television broadcasting should be established, especially for educational and "re-training" purposes.

(iii) Telecommunications and postal facilities with direct international access (telephone, telex and postal services) should be developed in major population centres of the West Bank and Gaza Strip, so as to enhance business and commercial activities.

(iv) The longstanding project to develop the Gaza seaport for both commercial and fishing purposes should be implemented.[63]

(v) Measures to establish direct air-transport links between the West Bank and Gaza Strip and with the rest of the world could enhance the revival of the Palestinian economy. Appropriate arrangements to enhance regional transport integration between the West Bank and Gaza Strip also need to be seriously investigated.

(c) Construction and housing

(i) With a view to preparing a comprehensive housing strategy, steps should be taken to define and assess housing demand and needs, to identify target groups according to social and economic priorities, to assess capital requirements, and to identify institutions involved in housing programmes.

(ii) Parallel to this, appropriate physical planning schemes at town and village levels are required to allow for the expansion of development areas and allocation of land for low-cost housing, including its parcelling to enable all members of target groups to acquire land for housing at affordable prices.

(iii) Existing housing institutions (cooperatives, financial institutions, engineering and contracting firms, etc.) need to be strengthened with a view to up-grading their capacity in planning, management and implementation of projects; new institutions could usefully be established in areas where shortages in housing delivery and related services are identified.

(iv) The capacities of existing construction material industries should be expanded and the quality of their material up-graded, thus providing adequate suitable construction materials at affordable prices. Early action should be taken on the project for establishing a cement factory in the West Bank.[64]

(v) Existing shortages in the housing balance may be bridged by encouraging public and cooperative housing projects in urban areas and private housing construction in rural areas.

(vi) Municipalities and the relevant professional associations could take the lead in formulating

a comprehensive and suitable building and construction code to guide housing and other constructions in cities and towns.

(vii) Efforts need to be intensified, especially by municipalities and other local authorities, to preserve and protect Palestinian historical sites, houses, monuments and architectural heritage. For this purpose, the technical assistance of regional Arab and international organizations could be solicited.

(d) Land and water resources

(i) The freeze recently introduced on the initiation of new privately and publicly financed Israeli settlement construction in most areas of the West Bank and Gaza Strip should ease the pressure on the use of Palestinian land and water resources. Additional action could be envisaged, including the grant of public access to land registers, an end to Israeli confiscation of Palestinian land, and steps to restitute expropriated land, especially for pressing agricultural and housing purposes.

(ii) Water resources need to be allocated in accordance with Palestinian needs and water rights in Gaza Strip and the West Bank, including the Yarmouk and Jordan Rivers.

(iii) The existing local Palestinian water authorities and institutions should be consolidated and strengthened with a view to establishing an indigenous water resources body capable of developing a comprehensive plan for water resources exploitation, conservation and management.

(iv) The growing needs of the Palestinian people call for the economic use of sources other than groundwater, through the construction of rainwater collection cisterns, reservoirs and new water distribution networks where needed, in addition to up-grading and rehabilitating the existing water distribution facilities.

(v) Water-treatment facilities are urgently needed for the purification and treatment of wastewater and its use in agriculture, industry and other areas.

(vi) The activities of existing research facilities need to be strengthened to include water conservation, monitoring of water quality and possible pollution.

Part II
REVIEW OF PROGRESS IN THE WORK OF THE SPECIAL ECONOMIC UNIT (PALESTINIAN PEOPLE), UNCTAD SECRETARIAT, 1991/1992

46. Pursuant to Conference resolution 146 (VI) and the decision taken at UNCTAD VIII and in line with the provisions of the work programmes of the UNCTAD secretariat for the biennia 1990-1991 and 1992-1993, the Special Economic Unit (Palestinian people) concentrated work during the period under review (July 1991-June 1992) on the four main areas of its activity, namely: (a) monitoring and analysing policies and practices of Israeli occupation authorities that hamper economic development in the occupied Palestinian territory; (b) investigating the impact of such policies and practices on main economic sectors; (c) developing the data-base of the Unit, including the dissemination of quantitative and qualitative information on the economy of the occupied Palestinian territory; and, (d) coordinating with, and contributing to, the relevant activities of the organizations of the United Nations system in response to General Assembly resolutions on assistance to the Palestinian people and on economic and social conditions in the occupied Palestinian territory. In carrying out work in these areas, close contacts were maintained with Palestine, in addition to consultations with other parties concerned.

47. With regard to monitoring, work was undertaken for the preparation of the present report on "Assistance to the Palestinian people" for consideration by the Trade and Development Board at the first part of its thirty-ninth session. In addition to highlighting recent developments in the policy environment affecting the Palestinian economy, the work focused on identifying pressing problems and needs and recommending feasible measures for action aimed at reviving the Palestinian economy and improving the economic and social conditions of the Palestinian people.

48. Within the context of the inter-sectoral project investigating prospects for sustained economic and social development in the West Bank and Gaza Strip, work was intensified on the preparation of the 25 in-depth field studies covering the main economic and social sectors. Part One of these studies, dealing with an analysis of the prevailing situation, identification of problems and needs and consideration of measures for immediate action, has been largely completed. Concurrently, the study initiated by the Special Economic Unit on a conceptual and substantive framework to provide guidelines for the preparation of Parts Two and Three of the field studies dealing with future prospects has also been completed along with a detailed supplement on various technical aspects of the framework. Accordingly, a quantitative framework has been established investigating, under different scenarios, possibilities for the sustained development of the Palestinian economy in the West Bank and Gaza Strip for the period 1990-2010.

49. In accordance with the work plan of the inter-sectoral project, a meeting of experts, both Palestinian and international, which was also attended by representatives of different United Nations agencies and regional organizations, was convened in Geneva on 19-22 May 1992 to: (a) discuss and adopt the findings of Part One of the twenty five in-depth individual studies, thus providing a consolidated report on the prevailing economic and social situation in the occupied Palestinian territory along with specific measures appealing to the Israeli occupation authorities, to the Palestinian people in the West Bank and Gaza Strip and to the international community for immediate action; and, (b) consider the quantitative framework for investigating the future prospects of the Palestinian economy in the West Bank and Gaza Strip under Parts Two and Three of the individual studies. It is envisaged to hold consultations with all the directly concerned parties on the outcome of the quantitative framework, and related aspects of the inter-sectoral project.

50. As part of the requirements of the inter-sectoral project, work on the development of the secretariat data-base on the economy of the occupied Palestinian territory was intensified. Available statistical series covering national income, population, labour and employment, balance of payments

and external trade for the period 1968-1987 have been standardized and classified along the lines of the Economic Times Series (ETS) in use in the UNCTAD secretariat and stored in the computer facilities of the secretariat for future reference. It is also intended to issue these series for dissemination, especially to researchers and institutions, so as to provide a uniform set of statistics on the economy of the West Bank and Gaza Strip for twenty years. The first of these series, dealing with national income accounts, was issued in UNCTAD/RDP/SEU/6, (in English only).

51. In addition to the above-mentioned reports and studies, the following publications were also produced during the period under review:

(a) "Select bibliography on the economy of the occupied Palestinian territory (West Bank and Gaza Strip)" (UNCTAD/RDP/SEU/5, English and Arabic only). This document contains a select bibliography of some 800 references, including books, articles, monographs and United Nations documents issued in English or Arabic on the economy of the occupied Palestinian territory. The document comprises two parts; one covering references in English while the other deals with references in Arabic, each classified according to the United Nations Bibliographical Information Systems (UNBIS) and by author.

(b) The study on "The tourism sector and related services in the Palestinian territory under Israeli occupation" (UNCTAD/RDP/SEU/7) has been issued and given general distribution.

52. In line with work programme requirements and the provisions of General Assembly resolutions, adopted during the period under review, the UNCTAD secretariat has stepped up its efforts to strengthen coordination and cooperation with the relevant organizations of the United Nations system as well as with regional and non-governmental organizations involved in work on the economic and social situation of the Palestinian people in the West Bank and Gaza Strip. This has included contributing to meetings, participating in inter-agency discussions and fielding missions to Tunis and Cairo for consultations and data collection.

Notes

1. cf. the Report of the United Nations Conference on Trade and Development on its eighth session (TD/364), part two, section IV. B.

2. See "Recent economic developments in the occupied Palestinian territory", TD/B/1305.

3. The content and scope of Palestinian economic initiatives have been reviewed in detail in previous UNCTAD secretariat reports: "Recent economic..." TD/B/1221, TD/B/1266 and TD/B/1305.

4. Some observers consider the authorities to have been indifferent in this regard - the work of the Israeli researcher Meren Benvenisti is a good example of this view point. Others consider the official neglect of the needs of the territory to be means to encourage the fragmentation of the Palestinian society and economy under occupation - this is a common tenet in analyses by many Palestinian researchers.

5. For example, the legality of the imposition of Israeli Value Added Tax in the occupied territory has been widely contested in light of the laws prevailing in the territory prior to 1967. The international legal position of Israeli taxation policies and measures in the territory have been fully investigated in M. Stephens, Taxation in the occupied West Bank, 1967-1989, (Ramallah, Al-Haq, 1990). Also see UNCTAD, "The Palestinian financial sector under Israeli occupation", (UNCTAD/ST/SEU/3/Rev.1).

6. See "Recent economic..." (TD/B/1266) and (TD/B/1305).

7. See "Recent economic..." (TD/B/1305), paras 13 and 16.

8. These measures have been reported in: Jerusalem Post, 3.7.91, 21.10.91, 19.11.91, 20.2.92, 2.3.92; Al-Fajr, 12.8.91, 19.8.91, 30.9.91.

9. Jerusalem Post, 22.11.91.

10. Jerusalem Post, 3.7.91.

11. Jerusalem Post, 24.7.92, 5.8.92, 6.8.92.

12. Al-Fajr, 22.7.91; 12.8.91, 30.9.91.

13. ILO, Report of the Director-General, Appendices, (Vol. 2), International Labour Conference, 79th Session, Geneva, 1992, para. 139.

14. See, UNRWA News, No. 258, 10 June 1992; Jerusalem Post, 4.6.92, 5.6.92 , 9.6.92. Income losses after three weeks of the closure of Gaza Strip were estimated at some $20 million, in Al-Fajr, 15.6.92. Further details on the situation of human rights in the Gaza Strip during this particular period are contained in the letter from the Permanent Observer of Palestine to the United Nations and the Specialised Organizations, dated June 5 1992, addressed to the Secretary-General of UNCTAD.

15. Sara Roy, "Development under occupation?: the political economy of U.S. aid to the West Bank and Gaza Strip", Arab Studies Quarterly, Vol. 13, Nos. 3 & 4, Summer/Fall 1991. The various aspects of this and related issues are investigated in the draft study commissioned by the UNCTAD secretariat "International assistance to the West Bank and Gaza Strip" (Part One, forthcoming).

16. See Jerusalem Post, 12.7.91, 29.9.91; Al-Fajr, 15.7.91, 22.7.91, 29.7.91, 4.5.92, 25.5.92.; Al-Hayat (in Arabic), 23.7.91,13.9.91, 20.11.91; Filasteen al-Thawra, 22.9.91, (in Arabic); Al-Quds, 15.4.91, (in Arabic).

17. One observer has written that "if the objective (of foreign aid) is humanitarian, there are some people benefiting. If the purpose is development, then (the foreign organisations responsible for distributing the aid) have completely failed. There is no development in the occupied areas from this aid", in Al-Fajr, 4.5.92.

18. See Al-Quds, 15.4.92 (in Arabic).

19. Interview with the Special Representative of the Administrator of the UNDP - Programme of Assistance to the Palestinian people in Al-Fajr, 22.7.91.

20. Ibid.

21. See Al-Fajr, 25.5.92.

22. One version of this critique holds that "development has come to mean affluence and influence, as foreign donors offer money and an affiliation that translates into political power. Insufficient coordination, duplication of services and overt competition for funds and a market share are not just an economic waste, but are guaranteed to undermine the process of community development on the basis of a common social and political agenda", in Al-Fajr, 29.7.91.

23. Jerusalem Post, 12.7.91, 29.9.91. Al-Fajr, 15.7.91.

24. Ibid.

25. Based on reports in Al-Hayat, 20.11.91, (in Arabic); Al-Quds, 15.4.92, (in Arabic), UNRWA "Press Release" HQ/7/92, 17.6.92.

26. European Parliament resolution A3-0207/31 of 10 September 1991.

27. All growth rates and other aggregate data period are calculated from or expressed in constant 1990 prices. The values in constant prices for key demographic and economic indicators may be consulted in the UNCTAD secretariat study "Prospects for sustained development of the Palestinian economy in the West Bank and Gaza Strip, 1990-2010: a quantitative framework" (forthcoming, Part One), Tables 1/1 - 1/3. Current price data for most of the aggregates may be consulted in "Selected national accounts series of the occupied Palestinian territory, 1968-1987" (UNCTAD/RDP/SEU/6).

Some of the aggregate national accounts data in this section covers only until 1987, the last year for which comprehensive and comparable data were available, compiled from statistics released by the Israel Central Bureau of Statistics (CBS) in three major publications: the annual Statistical Abstract of Israel (SAI), and the Administered Territories Statistical Quarterly (ATSQ) subsequently published as Judea, Samaria, and Gaza Area Statistics (JSGAS). These were classified within the framework of the Economic Time Series (ETS) in use at UNCTAD. Notwithstanding their limitations, the overall consistency, coverage, and continuity of the statistical series published by CBS render them the only existing adequate basis for analyzing aggregate trends. For the most recent period, 1988-1991, covering the Palestinian uprising (Intifada), estimates were calculated on the basis of official Israeli and various Palestinian statistical sources. The treatment of data for the period until 1990 is discussed in depth in the UNCTAD secretariat study "Prospects for sustained development... Technical supplement" (forthcoming), Part One, Chapter III.

28. Data below on land confiscation was compiled in Arab Studies Society, Land Research Unit, Bulletin, January 1992. (in Arabic). These figures are also reported in A.F. Jayyusi, Four Years of the Intifadah - Facts and Figures (Amman, n.p., 1992), (in Arabic), and in the letter from the Permanent Observer of Palestine to the United Nations and the Specialised Organisations, dated June 5 1992, addressed to the Secretary-General of UNCTAD. Of the total confiscated, some 75 per cent had already been acquired by Israeli authorities and settlers by the end of 1991, while the rest was still in the initial stages of expropriation - based on data in the draft study commissioned by the UNCTAD secretariat "Israeli settlements in the West Bank and Gaza Strip" (Part One, forthcoming).

29. A study reported in Al-Fajr, 9.9.91.

30. Data on settlements below is based on the draft study "Israeli settlements..." (forthcoming). The total number of settlers and settlements indicated here correspond to the figures released by the United States Department of State: see Jerusalem Post, 10.5.92. Other sources provide higher figures for the number of Israeli settlements (a total of 217): See, United Nations, "Report of the Special Committee to Investigate Israeli Practices Affecting the Human Rights of the Palestinian People and Other Arabs of the Occupied Territories", October 1991, (A/46/522).

31. The growth rates of population are derived from calculations based on population estimates above, in "Recent economic..." (TD/B/1305) para. 26, and in Jerusalem Post, 10.5.92.

32. "Israeli settlements..." (forthcoming).

33. Details of the different developments in the settlement drive during the recent period until mid- 1992 may be consulted in Jerusalem Post, 5.7.91, 8.7.91, 28.7.91, 31.7.91, 8.8.91, 27.8.91, 12.9.91, 13.9.91, 17.9.91, 20.9.91, 22.9.91, 4.10.91, 22.10.91, 28.10.91, 30.10.91, 18.2.92, 19.2.92, 25.2.92, 25.2.92, 10.5.92, 19.5.92, 26.5.92.

34. Jerusalem Post, 19.2.92.

35. J. de Jong of the Arab Studies Society, East Jerusalem, in Al-Fajr, 30.12.91. Also see report by the Palestinian human rights organisation Al-Haq in Al-Fajr, 9.9.91.

36. The Israeli Prime Minister's adviser on settlements, in Jerusalem Post, 28.6.92.

37. Jerusalem Post, 30.7.92.

38. Based on data in the draft study commissioned by the UNCTAD secretariat "Water resources in the West Bank and Gaza Strip" (Part One, forthcoming).

39. For further details on this issue, see ILO, "Report of the Director-General...", 1992, pp. 14-18.

40. ILO, "Report of the Director-General..." 1992, para 40.

41. ILO, "Report of the Director-General..." 1992, para 42.

42. Jerusalem Post, 15.4.92.

43. See "Recent economic..." (TD/B/1305) paras. 55-56.

44. Jerusalem Post, 15.4.92.

45. ILO, "Report of the Director-General...", 1992, para. 46. It is also stated that "Ironically, one could argue that relatively large numbers of men in detention, on average around 15,000 according to Israeli sources, keep unemployment figures down; however they are not considered part of labour force because they are unavailable for work", (ibid., para. 44, footnote 1).

46. See "Recent economic..." (TD/B/1305), p. 19.

47. Al-Fajr, 6.1.91.

48. Al-Fajr, 3.2.92; Jerusalem Post, 11.2.92.

49. Al-Hayat, 25.3.92, (in Arabic).

50. Jerusalem Post, 13.2.92; Al-Fajr, 6.4.92.

51. For more information on this concept, see O. Hamed and R. Shaban, "Involuntary Customs and Monetary Union: The case of The West Bank and Gaza Strip under Israeli occupation" (November 1991, paper presented at the Conference on Economic Units, Institute for Social and Economic Policy in the Middle East, Harvard University).

52. The most recent Palestinian company facing the threat of losing its market share was a soft-drinks producer in Gaza Strip, one of the biggest single employers there, which had its franchise (previously covering the occupied territory) cancelled by the transnational owners and transferred to an Israeli soft-drinks company. See Al-Hayat, 9.9.91 (in Arabic).

53. See Al-Fajr, 30.9.91.

54. Al-Fajr, 6.1.92.

55. Jerusalem Post, 27.7.92, 29.7.92.

56. These issues are examined in-depth in the draft study commissioned by the UNCTAD secretariat "Housing and Construction in the West Bank and Gaza Strip," (Part One, forthcoming).

57. Jerusalem Post, 23.2.92, 28.2.92, 6.3.92.

58. This was the subject of a recent in-depth study prepared by the UNCTAD secretariat, "The tourism sector and related services in the Palestinian territory under Israeli occupation", (UNCTAD/RDP/SEU/7).

59. Jerusalem Post, 22.7.92.

60. Data on most recent external trade performance is based on ILO, "Report of the Director General...", 1992, paras 21-25.

61. The UNCTAD secretariat previously investigated this subject in "The Palestinian financial sector..." (UNCTAD/ST/SEU/3/Rev.1). These issues have also been treated in Hamed and Shaban, "Involuntary customs union..." and M. Benvenisti, 1987 Report, West Bank Data Base Project, (Jerusalem, 1988).

62. General Assembly resolution 46/201 of 20 December 1991 confirms the urgent need for this type of facility.

63. General Assembly resolution 39/223 of 18 December 1984 calls for the implementation of this project, an appeal which has been reaffirmed annually since then in related resolutions.

64. General Assembly resolution 39/223 of 18 December 1984 also called for the implementation of this important project.

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UNCTAD'S CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s

Note by the Secretary-General of UNCTAD

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MANDATES AND PURPOSE

1. For the second part of its thirty-seventh session, the Trade and Development Board had before it a note by the UNCTAD secretariat (TD/B/1265), prepared in response to Board decision 372 (XXXVI), suggesting possible areas to be covered in UNCTAD's intergovernmental input into the United Nations General Assembly's final assessment of the UN-PAAERD in 1991.

2. In paragraph 13 of its resolution 389 (XXXVII), of 22 March 1991, pursuant to its own final review and appraisal of the implementation of the UN-PAAERD (1986-1990), the Trade and Development Board requested the Secretary-General of UNCTAD to continue, within his mandate, his efforts to provide assistance to African countries, including continued analysis and research relating to problems of interest to Africa, as well as technical cooperation programmes in Africa and to ensure that needs appraisal missions of the secretariat covered all regions of Africa.

3. In its resolution 46/151, of 18 December 1991, the General Assembly adopted the assessment of the implementation of UN-PAAERD, as well as the United Nations New Agenda for the Development of Africa in the 1990s (annexed to that resolution), and requested Governments, organs, organizations, and bodies of the United Nations system to take appropriate measures in order to implement the commitments contained in the New Agenda.

4. The eighth session of UNCTAD agreed on areas which should serve as orientations for developing fresh approaches to long-standing issues and for insights for pursuing relevant new lines of work. The Conference also agreed that intensified international cooperation for development involved fresh approaches to traditional areas, including development finance, concerted efforts to fight poverty, special measures to promote developing countries' exports, special action for LDCs, the United Nations New Agenda for the Development of Africa in the 1990s, and the United Nations System-Wide Plan of Action for Africa, as well as economic cooperation among developing countries.

5. The arrangements set forth in paragraph 66 of the final outcome of UNCTAD VIII (The Cartagena Commitment), call for, inter alia, for one part of the sessions of the Trade and Development Board to address and respond fully to requests made by the General Assembly for consideration of particular issues including, notably, UNCTAD's contribution to the United Nations New Agenda for the Development of Africa in the 1990s.

6. The purpose of this note is to propose, in a preliminary way, actions to be taken as UNCTAD's contribution to the implementation of the two main United Nations programmes on Africa: The United Nations New Agenda for the Development of Africa in the 1990s; and the United Nations System-Wide Plan of Action for African Economic Recovery and Development.

7. The first part of the note deals with the United Nations New Agenda for the Development of Africa in the 1990s, UNCTAD's contribution to its implementation and its implications for UNCTAD's work. Part II of this note outlines very briefly the background to the United Nations System-Wide Plan of Action for African Economic Recovery and Development.

Part I

UNCTAD'S CONTRIBUTION TO UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s

A. Contributions of UN-PAAERD and lessons for the New Agenda

8. The final review and appraisal of the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD) concluded that the circumstances which had led to the adoption of UN-PAAERD in 1986 were as valid in the 1990s as they had been then. 1/ Assessments by the African countries themselves, the Secretary-General of the United Nations, other organizations and independent observers noted that Africa's overall socio-economic conditions had worsened over the UN-PAAERD period. The number of African LDCs had increased, the debt burden remained a major constraint on development, the terms of trade had worsened and resource flows had, at best, stagnated in real terms.

9. The view that "the African economic crisis is one that concerns the international community as a whole" had been reaffirmed during the final review of UN-PAAERD. However, the African countries rejected a mere repetition of UN-PAAERD principally because it was realized that programmes without specific goals were not likely to contribute significantly towards ameliorating Africa's present situation. 2/ That is why, in part, the new programme has the objective of an average real growth rate of at least 6 per cent per annum of gross national product (GNP) throughout the period of the New Agenda. That rate of growth is important as the continent has a population growth rate of 3 per cent per annum. This will entail greater domestic resource mobilization efforts, and will require substantial increases in domestic savings.

10. It is now generally accepted that although the problems which gave rise to the international initiative establishing UN-PAAERD had not been substantially reduced, several gains had nevertheless been achieved. First, many African countries had become more aware of the need for reforms: some did indeed benefit through export growth and strengthened ability to cope with external shocks. Secondly, there was increased international awareness of the size and complexity of the problems. Thirdly, the debate on structural adjustment revealed the need for a policy mix which combined appropriate macroeconomic and short-term measures with longer-term development objectives aimed at structural transformation and growth in African economies. Furthermore, a number of African countries had started moving towards more participatory forms of government.

11. By the end of UN-PAAERD, at least two thirds of the African economies in sub-Saharan Africa had embarked upon the difficult and trying process of stabilization and structural adjustment in response to external payments problems. Progress in this area was uneven and insecure. While the economies of many of the countries undertaking adjustment and reform programmes registered various degrees of improvement, greater insights into the nature of the problems associated with structural adjustment programmes were also gained. Many countries, for instance, were unable to reconcile the objectives

of external balance, price stability and economic growth. In most cases, initially at least, policees were geared primarily towards quickly achieving external balance and internal price stability which either failed or recorded successes only by sacrificing employment, growth and distributional objectives. Even then improvements in some cases tended to be ephemeral. This was inherent in the nature of the design of such programmes which were demand-restraint oriented. It is now generally recognized that a new strategy of economic recovery and development for Africa in the 1990s will involve a much longer time horizon than was implicit in the first generation structural adjustment programmes, as most important investments and policy changes have long gestation periods.

12. During UN-PAAERD period it became clearer also that a sustained and internally consistent set of government polices backed by a predictable flow of the necessary external resources were essential to success. Experience with these programmes has shown that no unique formula for economic reform exists. Programmes need to take into account each country's particular economic structure and capacity for change. The view that these reform programmes must have, as their ultimate objective, structural transformation of African economies which would reduce the region's excessive vulnerability to external shocks and set it on the path of viable self-sustaining economic growth and development is now better appreciated.

13. While efforts must continue to elicit support from the international community, African countries' best chances of success lie in the continued pursuit and deepening of reforms to stimulate their economies, to put them on the path of sustainable development and protect them from external shocks. Regional cooperation and integration are likewise indispensable if African countries are to strengthen their position within the global economy. The international community, especially the multilateral institutions, could support these efforts, by expanding their programmes of assistance while at the same time adapting them to respond to the weaknesses observed in the earlier programmes.

B. The United Nations New Agenda for the Development of Africa in the 1990s

14. The follow-up to General Assembly action on UN-PAAERD resulted in the adoption, unanimously, of General Assembly resolution 46/151 together with its annexure, the United Nations New Agenda for the Development of Africa in the 1990s, on 18 December 1991. 3/ All major activities concerning Africa within the United Nations system are expected to derive from and be guided by the New Agenda. The main ingredients of the Agenda envisage actions to be taken by African countries themselves as well as by the international community in support of the former's own efforts. This section outlines in brief the main elements of the New Agenda for Africa.

(i) Africa's responsibility and commitment

15. African countries are expected to take actions in a number of areas, including: sustained and sustainable development; regional and subregional economic cooperation and integration; intensification of the democratization process; investment promotion; human resources development; environment and

development; population and development; agricultural and rural development and food security; South/South cooperation; enhancing the role of non-governmental organizations.

16. The Agenda recognizes that regional and subregional cooperation and integration are essential for the transformation of the African economies. For this reason, African countries are in the process of establishing the African Economic Community, and the Treaty to this effect was signed by African leaders on 3 June 1991, in Abuja, Nigeria. Efforts are being made to improve effective functioning of the subregional organizations.

17. Growth and development on a sustainable basis in Africa require a continuous process of reform and adaptation, improvement of domestic economic management, more effective mobilization and utilization of domestic resources and, the involvement of the people and their full participation in the process of development. Efforts towards democratization include the full implementation of the Africa Charter on People's and Human Rights, the African Charter for Popular Participation in Development and Transformation and the Declaration of the Organization of African Unity (OAU) Heads of State and Government at their 1990 Summit on the Political and Socio-Economic Situation in Africa.

18. The capacity to undertake development activities and achieve the objectives set will depend, to a great extent, on the efficiency and quality of available human resources. The New Agenda envisages, therefore, that African countries will intensify their efforts in human resources development, and capacity building, especially in science, technology and management and in institution building, and take measures to arrest and reverse the brain drain.

19. Emphasis will be placed on an integrated approach involving contributions from all sectors. This will involve a commitment to the promotion of sectoral integration and to ensuring the development of reliable networks of physical, industrial and institutional infrastructure on the continent. The implementation of programmes for the second United Nations Transport and Communications Decade in Africa (UNTACDA) and the second Industrial Development Decade for Africa (IDDA) will make important contributions in this area.

20. The African Common Position, adopted at the African Regional Conference on Environment and Development in Cairo, Egypt, in July 1991, accepts that strategies pursued should be environmentally sound. In the field of population, Africa would continue to implement the Kilimanjaro Plan of Action of 1984, which is Africa's framework for devising national population policies in all their interrelated aspects, including child care, family planning and female education. The continued pursuit of policies and strategies for the achievement of food self-sufficiency as an area of priority action during the decade of the 1990s is also a major objective of the New Agenda.

(ii) The responsibilities and commitment of the international community and actions required

21. The adoption of the New Agenda for international cooperation with Africa, and the compact to ensure its effective implementation, is a demonstration of the declared commitment of the international community to assist Africa in its effort to tackle daunting socio-economic problems, on the basis of Africa's own agenda for the 1990s. To be effective, however, the support and commitment of the international community will need to be translated into concrete actions targeted at achieving the broad objectives of the New Agenda in a number of key areas. These include, solution of Africa's debt problem, increasing resource flows, notably foreign direct investment; commodities; support for the diversification of the African economies; trade; support for regional economic integration; environment; science and technology; the role of the United Nations system; and the role of non-African non-governmental organizations.

22. A critical element in the support of the international community is the provision of adequate resources, including foreign direct investment, consistent with Africa's needs for debt service, growth and development through the 1990's. The New Agenda estimates this at a minimum of net external resource flows of US$ 30 billion in 1992 and growing thereafter at 4 per cent per annum in real terms. A debt service burden of 30 per cent puts enormous strain on the resources of African countries, leaving hardly any balance to invest in development. At the same time, the problem of diversification of Africa's commodities' sector and encouraging increased transformation of primary commodities into processed goods requires greater attention.

23. There are now 32 least developed countries (LDCs) in Africa. The international community has acknowledged special responsibility towards these countries within the framework of the principles and commitments set out in the Programme of Action for the Least Developed Countries for the 1990s. The strategies and priorities identified in the New Agenda for the development of Africa correspond closely to those of the Programme of Action. In the area of external resources, in particular, the Programme provides for a set of alternative aid targets; and the international community collectively committed itself to making available a significant and substantial increase in the aggregate level of external support. At the eighth session of UNCTAD, the LDCs and their development partners reaffirmed their commitments undertaken in the Programme of Action as well as their continued determination to implement these fully, effectively and in a timely manner.

24. The United Nations system and non-governmental organizations also have an important role to play in the implementation of the New Agenda and additional efforts need to be made for them to provide an enhanced level of support within the framework of the New Agenda.

C. Implication for UNCTAD'S work

(i) General

25. The broad objectives of the New Agenda are not very different from those of its predecessor (UN-PAAERD). Operative paragraph 3 of General Assembly resolution A 46/151 requests Governments, organs, organizations and bodies of the United Nations system and non-governmental organizations to take appropriate measures in order to implement the commitments contained in the New Agenda.

26. The intergovernmental machinery of UNCTAD is engaged to respond fully to the request of the General Assembly. In this regard, previous decisions of UNCTAD's Board (decision 363 (XXXV) and its annex, in particular), in the areas of policy research and analysis, as well as technical assistance, remain valid. In assisting the Trade and Development Board to discharge its responsibilities under the General Assembly resolution, the secretariat will be guided by Section B, Part III, in particular, paragraphs 50 and 51 of the Cartagena Commitment.

27. The substantive work will consist, as agreed by the Conference, of a dynamic and progressive sequence involving the initial identification of relevant issues, the carrying out of high-quality analyses which would benefit from external inputs from governmental and non-governmental experts and actors, intergovernmental consultations and deliberations, dialogue, and interaction aimed at identification of areas of convergence on appropriate forms of action.

28. In regard to policy research and analysis, there will be a need in some cases for in-depth work involving Africa-specific studies on issue areas such as, foreign direct investment and resource flows, debt, commodity sector policies, inter alia, (as suggested in the Fraser Group Report), 4/ regional integration, trade and market access. In the African context, there are strong links among national and structural adjustment policies, commodity trade, population growth, poverty alleviation, and the environment. This calls for specialized studies to examine the issues fully with a view to putting in place appropriate remedial measures. Technology issues are likewise important as they relate to trade in goods and services, investment finance and the environment.

29. Research and analysis in these areas will initially draw on existing work within the secretariat. However, to the extent that the general tenor of UNCTAD analyses tends to be global, there will be a need for region-specific in-depth studies on Africa, in some cases to provide the analytical underpinnings for appropriate policy recommendations. The Cartagena Commitment also calls for analysis to be based on country experiences, taking into account differences between countries and regions. In this regard, the Standing Committees of the Trade and Development Board and the Ad hoc Working Groups could, by responding to this request in their work, provide some of the analytical basis for UNCTAD's eventual action. However, considering the orientations that have emerged from the eighth session of the Conference, and the fact that the general global analysis usually undertaken by the secretariat

may not always provide a complete basis for region-specific recommendations, there may be a need in certain cases to undertake specific studies. The topics dealt with are illustrative of some of the issue areas where UNCTAD could make a contribution to the implementation of the New Agenda. They follow, as far as possible, the order indicated in the New Agenda. The order followed in this note first deals with issues amenable to national action, followed by those relating to subregional and regional cooperation, South/South cooperation, and lastly, issues of international cooperation.

(ii) Achievement of sustained and sustainable growth

30. As noted above, the target average annual growth rate of 6 per cent per annum for GNP in the 1990s implies increased efforts at resource mobilization in many African countries. The ratio of gross domestic savings to GDP for Africa, excluding South Africa, has declined from 16.1 per cent in 1980-1984, to 12.8 per cent in 1990. The respective ratios for sub-Saharan Africa were 5.5 and 4.1 per cent. These rates of saving are not high enough to support the target growth rate. Improvements in productivity, efficiency in management and continuation of sound economic policies will also be essential. The need for structural adjustment policies and policy reforms is no longer in doubt. There is, however, a further need for continuous improvements in the design, policy mix and orientation of programmes, particularly to adapt them to the special requirements of countries undertaking them.

31. It will be necessary to compare the performance of African countries undertaking various adjustment programmes; drawing upon work in other institutions as well as within UNCTAD. The aim would be to learn from successes and failures which could guide UNCTAD's contribution to the search for improved approaches to structural adjustment, growth and development in Africa. In this area, as in others, such as population policy, environment, food production, etc., the analysis would aim at "providing constructive approaches, as well as viewpoints and at generating political impulses" 5/ on matters within UNCTAD's purview to be considered by other institutions. The analysis should also bring out areas within UNCTAD's purview where further support, including technical assistance, could be provided.

32. In the area of sustainable development, the Plan of Action to Combat Desertification remains a viable framework for cooperation. Persistent droughts, desertification, and environmental degradation arising from population pressure and trade are major problems facing Africa. The exploitation of non-renewable or long-term renewable natural resources to meet human development needs is a major source of pressure. The eighth session of UNCTAD attached great importance to environmental issues in the context of sustainable development. In addition to the relevant provisions of the Cartagena Commitment, UNCTAD's support for African countries will also be guided by the outcome of the United Nations Conference on Environment and Development.

(iii) Population, environment and development

33. The commitment of African countries to integrate population factors into their development process through the implementation of their relevant programmes and declarations is clearly stated in the New Agenda. Although questions of population per se do not fall within UNCTAD's purview, they nevertheless have serious implications for overall development, incomes, welfare, poverty alleviation, and the environment. Between 1980 and 1990, the annual average rate of population growth in Africa was 3.1 per cent compared with 1.7 per cent globally, 2.1 per cent for Latin America and the Caribbean, 1.9 per cent for Asia and 0.5 per cent for OECD countries. Clearly there is need for concern about population growth trends in Africa mainly because of the strain of population dynamics on resources. Many African countries and an increasing number of donors are moving to the realization that policies to bring population growth to levels compatible with sustainable growth have become an indispensable variable in the development equation.

34. The secretariat's contribution will consist of the inclusion of analyses of population issues in its report to the Trade and Development Board, drawing largely upon information generated in the relevant competent forums. Such analyses will seek to place population issues in the context of UNCTAD's mandate, e.g. the relationship between population growth, incomes, and availability of social services, the effects of population pressure on the land, the links between population growth and the environment, raising awareness of their implications and encouraging remedial action in the appropriate quarters. This report, together with the Board's deliberations thereon, could serve as a useful input to the International Conference on Population and Development in 1994.

(iv) Intensification of the democratization process

35. The need for full participation of the people in the development process is now firmly acknowledged. African countries have declared their determination to proceed with the democratization of the development process and the full implementation of the various commitments undertaken by them in that regard. 6/ A number of Governments in Africa are already taking steps towards more open and democratic forms of government. This process needs to be broadened and deepened as a complement to improved management and involvement of nationals in their governance.

36. The secretariat, through its coverage of developments in this area in reports to the Trade and Development Board, will seek to encourage the process and elicit support for it.

(v) The human dimension

37. Under this rubric, the New Agenda is committed to human rights, poverty alleviation, gender issues and child care. There is also a commitment to human resources development and to institutional and management capacity building.

38. African countries need more support to make greater inputs to the development of national policies and structural adjustment packages and to

manage them efficiently. Even countries with some ability to develop largely home-grown programmes face problems of management capacity for these programmes. UNCTAD's contribution, within its mandate to implement the New Agenda in this particular area, has been re-enforced through the creation of the Special Committee on Poverty Alleviation.

39. UNCTAD's technical assistance programmes for Africa must be selective, and targeted to support expressed and assessed needs. Sectoral support requirements will need to be reviewed to make them consistent with agreed priorities of the African countries and their development partners. Technical assistance to Africa should be well focused. In view of the importance of national policies and their wider implications for growth, development and poverty alleviation, greater attention will have to be paid to national capacity-building in this area. The second priority is regional cooperation and integration. In this area, UNCTAD already has a strong technical cooperation programme in Africa. To this end, further support from UNCTAD in the 1990s will be essential.

(vi) Promotion of regional cooperation and integration

40. African countries believe strongly that regional cooperation and integration will assist the process of effective transformation of their economies. To this end, they are committed to the establishment of the African Economic Community (AEC). The treaty establishing the AEC was signed by African leaders on 3 June 1991 at Abuja, Nigeria. As part of the process of building up the AEC, it will be necessary to rationalize and strengthen existing regional and subregional institutions. The strengthened and more efficient subregional institutions will thus form the building blocks of the larger AEC. An important component of the process will be the promotion of sectoral integration in the areas of agriculture, and physical, industrial and institutional infrastructure. Harmonization of national policies will be important as well.

41. The support of the international community will be vital to Africa's efforts to bring the African Economic Community into operation. In particular, assistance will be required from UNCTAD in the preparation of background studies on the elaboration of protocols, and in the process of rationalization, strengthening and improving the effectiveness of the existing subregional intergovernmental organizations (ECOWAS, PTA, ECCAS and AMU) as part of the AEC formation. UNCTAD is already engaged in substantial work in this area in Africa.

42. However, UNCTAD's contribution to the promotion of regional integration will be based on an analysis of past and ongoing efforts in this domain. Drawing on experiences from within the region and outside, the secretariat will try to distil from existing studies and analyses, as well as from the work of the Standing Committee on Economic Cooperation among Developing Countries, the salient elements of an effective approach to regional cooperation and integration as a basis for its support to Africa in this area. Where necessary, and depending on the availability of resources, specific studies could be undertaken to provide supplementary analyses of proposed actions. For example, the results (both successes and failures) of regional cooperation and integration efforts in Africa could be examined

through comparative analyses with a view to learning from these experiences. There is merit, for instance, in comparing the SADCC cooperation approach with similar regional cooperation groupings such as the river and lake development organizations, and ascertaining whether some aspects could not also be adopted, if appropriate, by subregional/regional integration groupings such as ECOWAS and PTA. Similar analyses could be undertaken for regional integration groupings, such as comparing ECOWAS and PTA. Lessons drawn from relevant comparative analyses could highlight new orientations to bear upon UNCTAD's technical assistance support in this area for Africa. In addition, as mentioned above, strong support will need to continue on the preparations leading to the establishment of the African Economic Community.

43. Furthermore, UNCTAD's traditional technical assistance activities relating to the removal of impediments to trade expansion, as well as other impediments such as inadequate trade-information systems, marketing networks, transport and customs, monetary, exchange and payments arrangements will be pursued.

(vii) South/South cooperation

44. South/South cooperation can make important contributions to Africa's development in the 1990s. With the Latin American countries, China, India and the South-East Asian countries showing promise of recovery in their economies, the potential for South/South cooperation needs to be more fully exploited, especially at the technological and commercial levels. Cooperation on research and development, joint ventures and human resources development also offers interesting prospects. Wherever possible, UNCTAD's analysis will aim at highlighting the potential for mutually beneficial cooperation, with a view to promoting Africa's greater integration into the global economy. Contacts between NGOs at the South/South level could give impetus to this effort.

(viii) Agriculture, rural development and food security

45. Increased productivity in agriculture, greater attention to rural development, policies aimed at achieving food security and greater self-reliance in food are also high on the African agenda. These issues naturally have implications for incomes, welfare and poverty, especially among women and children and in the rural areas where seasonal poverty strikes hard.

46. Food security and increased self-reliance in food are important issues in relation to diversification. There is need for African countries to review today's comparative advantages and boldly address the anomaly between persistent deficiencies in food production and surpluses in some export crops. This is one area where a bold approach is called for, in line with paragraph 54 of the Cartagena Commitment. These are legitimate issues for consideration in structural and sectoral adjustment programmes. Generally, however, UNCTAD's contribution will involve analyses (drawing on other sources) which aim to highlight some of the main issues by viewing them in the context of national and sectoral policies.

(ix) Trade, commodities and diversification

47. African countries have sought in recent years to generate some dynamism in export revenues through increased exports. However, declines in prices have cancelled out any achievements in real export value terms. Export volumes have risen but prices continue to fall and resources available in the various compensatory funds have clearly been inadequate to cover shortfalls. Meanwhile, resource scarcities have limited the scope for diversification, while market access problems for processed goods have posed a further threat of heightened disincentives to diversification.

48. In view of the high dependence of African countries, in particular, on raw material exports as the primary source of trade-generated resources, African countries will have to pay particular attention to this sector of their economies. It is pertinent to note in this regard that the United Nations Secretary-General's Expert Group on Africa's Commodity Problems, in their report 7/ (the Fraser Group Report) has recommended that each African Government: "Formulate within an overall development strategy, a commodity strategy ... and a comprehensive policy package to support this strategy". In elaborating further on their recommendations, the Fraser Group stressed that the development of the commodity strategy and the comprehensive policy package should be initiated and substantially coordinated by the African Governments themselves, although they could draw on assistance from international agencies and donors in the process.

49. The Cartagena Commitment (para. 195) repeats the call for comprehensive commodity sector policies in much the same words as the Fraser Group. For Africa, important features of such policies would be domestic policies and an institutional environment which would enhance competitiveness while promoting diversification and structural transformation.

50. Specific elements of these policies set out in the Cartagena Commitment also appeared in the Fraser Group Report. The international community could support the current efforts towards finding effective and lasting solutions to the problem of African commodities, especially by promoting and providing funding for diversification programmes in Africa, encouraging sectoral adjustment policies to balance supply with demand and promote market clearance, improving the existing schemes for compensating shortfalls in export earnings, and through the facilities provided under the Common Fund. In addition, and bearing in mind that a number of primary products on which Africa depends are in structural oversupply, there will be a need to address the question of rationalization of investment in these areas, so as to bring long-term demand and supply into balance on the basis of changing comparative advantage and price competitiveness. In this regard, the first part of paragraph 54 of the Cartagena Commitment is particularly relevant.

51. There is a need for urgent action relating to proposals for diversification of the commodities sector. 8/ Sufficient indications of action required can be found, inter alia, in the African Common Position on the report of the United Nations Secretary-General's Expert Group on African Commodity Problems, the Fraser Group Report itself, and in the Annex to the Final Review and Appraisal of the Implementation of UN-PAAERD. 9/ A diversification fund for Africa has also been proposed.

52. In order to support effectively the diversification of Africa's economies, greater efforts will be needed towards removal of tariff and non-tariff barriers affecting African exports, particularly of processed, semi-processed and manufactured products. In so doing, care should be taken that the preferences currently enjoyed by African products are not eroded. Within this context, the international community could support the efforts of African countries to strengthen their production and export capacity in the services sector, including through financial assistance.

53. These issues will be covered in the regular reports to the Trade and Development Board, drawing upon the work of its relevant Standing Committees which could be supplemented as necessary by specific studies.

(x) Trade

54. With regard to trade, while access to markets is important for many African countries' processed products, it will be equally important to stress actual marketing. The important distinction needs to be made between openness of markets and ability of African countries to take advantage of market opportunities where they exist. While considerable work is being done on the former, not enough attention has been given to strengthening African countries' capacities in marketing, market research and development, and market penetration. As African countries succeed with their sectoral adjustment programmes and begin to diversify their economies on a competitive basis, their ability to sell in a highly competitive global market will become a major determinant of success. In this connection, measures aimed at improving the efficiency of the marketing chain from the product design stage through processing, marketing, transportation and distribution to assessment of consumer response would be important. 10/ They must also be supported by policies that are integrated, mutually consistent, and reinforcing through all stages of the marketing chain.

55. There will be a need, therefore, to begin now to prepare the countries concerned for this stage. Already the International Trade Centre (ITC) has begun work in this area. The secretariat could reinforce its collaboration with ITC to produce general as well as specific studies on issues relating to marketing and market penetration. Studies on the characteristics or peculiarities of specific markets, for instance, would be helpful. At the same time, the secretariat's work on trade policy, structural adjustment and economic reforms as well as work on trade efficiency would continue to provide the necessary background material.

(xi) Solution to Africa's debt problem

56. Africa's external debt grew rapidly in the past decade. This situation has been accompanied by mounting debt-servicing difficulties despite implementation of several international initiatives. Africa's external debt rose in 1990 to nearly US$ 270 billion, with an external debt/GDP ratio of 90 per cent and a debt service ratio of 30 per cent. The debt burden constitutes a major bottleneck to recovery and progress and calls for innovative, forthright measures to solve it. The G-7 meeting in London in July 1991 agreed that Africa's debt problems deserved special attention. It also agreed on the need for relief measures well beyond the Toronto Terms.

The New Agenda envisages a number of measures to address the situation. The positions expressed in the Cartagena Commitment, especially paragraphs 101 to 103, are also relevant.

57. There is growing recognition among bilateral donors that it is essential to reduce substantially the debt stock, including through debt cancellation. Given the recent precedents in debt cancellation, the adoption of bolder measures and exceptional treatment on official and semi-official, private or commercial as well as multilateral debt of African countries along the lines envisaged by the General Assembly in the New Agenda 11/ would make a major contribution to the solution of Africa's debt problems in the 1990s.

58. UNCTAD's contribution to the implementation of the New Agenda will consist in providing the Trade and Development Board, in its regular reports, with reviews of progress in the adoption or implementation of these proposals with a view to keeping the international community informed on the evolution of solutions to Africa's debt problems.

(xii) Resource flows

59. During the UN-PAAERD period, bilateral ODA, broadly defined, to Africa in constant 1986 prices stagnated at between US$ 13.1 billion and US$ 13.9 billion. Net export credits fell by 50 per cent to US$ 1 billion in 1990 and net private flows other than from NGOs dropped from US$ 1.8 billion to US$ 1.4 billion. Resource flows from NGOs rose by US$ 600 million to US$ 1.6 billion during the period.

60. The New Agenda notes that donor countries recognize the need for complementary resources to support reforms and transformation programmes to which African countries have committed themselves and that, moreover, they have sought to act accordingly. Donors also affirmed in the New Agenda that, in spite of new needs in Western Asia and Central and Eastern Europe, and their own budgetary constraints, they remained committed to Africa.

61. The New Agenda estimates that a minimum of US$ 30 billion in ODA flows in 1992, rising by 4 per cent per annum on average, will be required to support the target growth rate. The World Bank, for its part, has estimated that, even assuming a 50 per cent increase in gross domestic savings, US$ 29 billion will still be required by 1995 to support the lower growth rates of 4 to 5 per cent postulated in their Long-term Perspective Study on Sub-Saharan Africa. This nominal gross financing requirement will imply a 4 to 5 per cent growth in ODA flows in real terms between 1990 and 1995, equivalent to 8 to 9 per cent a year in nominal terms. The World Bank has postulated that this could be achieved through a modest increase in the global aid budget and a 5 per cent shift in total ODA to 35 per cent in favour of Africa.

62. At the eighth session of the Conference, Member States of UNCTAD recognized that increased amounts will be needed to supplement developing countries' domestic savings on conditions which take account of their specific economic needs and country situations. They attached special importance to mobilization of external finance in the form of official flows as well as FDI; in addition, work on finding solutions to the debt problem was expected to continue.

63. The secretariat's regular reports to the Trade and Development Board will seek to follow developments in external resource flows to Africa and assess the extent to which these indications are being observed.

(xiii) Investment promotion (Foreign direct investment)

64. A number of countries have taken measures to improve the investment climate in recent years. These efforts need to be pressed further through continuous improvements in an environment that attracts foreign direct investment (FDI), induces the return of flight capital and promotes full participation of the enterprise sector as well as non-governmental organizations in the growth and development process. This should take place within a context of a people-centred approach to development.

65. Despite the significant measures taken by several African countries to improve the legislative and administrative as well as the policy environment, FDI to the region has been minimal. Latin America and the Caribbean and the Middle East, North Africa, and especially South-East Asia continue to attract most of the flows to developing countries.

66. This poses a dilemma for African countries and their development partners. Since the expectation of the private sector as the sector of growth in Africa cannot be fulfilled through domestic savings alone, how will Africa's private enterprise sector grow if international resource flows are only in the form of bilateral or multilateral flows to the public sector? What additional measures will African countries need to take in order to make the region more "attractive" to foreign private capital in an increasingly competitive, capital-short market? What for instance, in the foreign investor's view, are the hallmarks of a "friendly investment climate"? Are such perceptions constant or subject to shifts of opinion and why? What lessons may be drawn from studying capital formation in the more successful countries of South-East Asia and Latin America? What special measures, if any, can be taken in donor countries to encourage the flow of private capital to Africa?. How can contacts and communications with the enterprise sectors of capital-exporting countries be improved as a means of encouraging greater flows of FDI?

67. Although there have been a number of studies on the subject, within UNCTAD these have been at the global, general level. They have not focused in great depth on Africa and its specific problems. In order to assist capital-exporting countries and the African countries to gain a better appreciation of the problems and potentialities, it will be necessary to undertake an in-depth study addressing some of the questions raised above and taking existing studies as the point of departure. Such a study will require extrabudgetary support.

(xiv) Technology

68. Technology is a key to overall development. African countries attach considerable importance to issues such as access to technology, technology flows and investment, human resources development and their positive contribution in building up the capacity to absorb and adapt imported technology.

69. The UNCTAD contribution could consist of: (i) policy-oriented studies on the transfer and absorption of technology, innovation, research and development, and the factors that affect the capacity of African countries to acquire, adapt and improve imported technology; (ii) policy analyses of technology issues and their interrelationships with trade in goods and services, investment, finance and the environment; (iii) assessments of African countries' needs and requirements for building up their capacity to evaluate, select, negotiate, acquire and develop technology; (iv) providing support in the design of programmes for human resources development, including technical and managerial capabilities, having particular regard to new technologies, and to research and development activities.

(xv) The role of non-governmental organizations

70. The role of both African and non-African NGOs has been stressed in the New Agenda. In a number of programmes there will be need for greater involvement of NGOs and local organizations, especially the enterprise sector, from the formulation stage through to monitoring and assessment of implementation. Governments have the primary responsibility for programmes pursued in their various countries. However, the involvement of NGOs can impart relevance and give a wider sense of participation among beneficiaries. It could also ensure independent monitoring of programmes. Regular reports to the Trade and Development Board will, where information is available, cover the contribution of NGOs. Particular attention will be given to the interaction of both the foreign and local enterprise sectors on programmes being implemented.

(xvi) Follow-up, monitoring of and implementation of the New Agenda

71. The United Nations System is expected to play a major role in the implementation of the New Agenda. The United Nations organizations and specialized agencies are required to devise specific programmes for Africa which are consistent with the elements of the New Agenda and to devote adequate resources for their implementation. UNCTAD as a major economic organ of the United Nations will be expected to make major contributions in the areas mentioned above, in addition to generating the necessary political impulses on matters within its purview to be considered by other institutions.

72. Arrangements adopted by the United Nations General Assembly for the evaluation, assessment and monitoring of the United Nations New Agenda for the Development of Africa in the 1990s will have the following timetable:

1993 - The General Assembly will undertake preliminary consideration of the implementation of the New Agenda;

1995 - ECOSOC will devote part of its high-level segment to consideration of the implementation of the New Agenda;

1996 - The General Assembly will conduct a mid-term review of the implementation of the New Agenda;

1998 - ECOSOC will devote part of its high-level segment to the consideration of the implementation of the New Agenda;

2000 - The General Assembly will conduct a final review and assessment of the implementation of the New Agenda.

73. The basis for contributions by the intergovernmental machinery of UNCTAD to the implementation of the New Agenda will be the Secretary-General's report to the Trade and Development Board. On the basis of experience with UN-PAAERD, UNCTAD's contribution will be highly focused. Each report to the Trade and Development Board will, apart from general coverage, treat a particular issue of topical relevance for Africa and the international community.

74. The issue areas proposed in the suggested elements of the work programme of the Trade and Development Board up to 1996 are contained in document UNCTAD/PSM/CAS/414. It was agreed 12/ that the proposals contained in that document could serve as an indicative orientation for the work programme and as a point of departure for the formulation of future agenda of the Board for each session concerned, it being understood also that a draft provisional agenda for each session of the Board would be approved by the previous session. It may be further understood that, in preparing the agenda, due account would be taken of comments made by delegations as well as of additional topics listed in document UNCTAD/PSM/CAS/414/Add.1.

75. Other activities will include:

(a) proposing measures to enhance UNCTAD's contribution to the implementation of the New Agenda;

(b) preparing, as necessary, reports for consideration by the high-level segment of ECOSOC;

(c) preparing UNCTAD's intergovernmental inputs into the various reviews and assessments of the New Agenda by the United Nations General Assembly;

(d) providing substantive inputs into assisting in the drafting of the United Nations Secretary-General's analytical assessment of implementation, as required by paragraph 44 of the New Agenda;

(e) participation in various inter-agency activities relating to implementation of the New Agenda;

(f) substantive assistance to, and collaboration with, the ECA and OAU on various aspects of the implementation of the New Agenda.

(g) implementation of the UNCTAD section of the System-Wide Plan of Action for African Economic Recovery and Development (ref. para 63(2) of the Cartagena Commitment).

PART II

THE UNITED NATIONS SYSTEM-WIDE PLAN OF ACTION FOR AFRICAN ECONOMIC RECOVERY AND DEVELOPMENT

76. At its thirtieth session, the Committee for Programme and Coordination (CPC) recommended that the Secretary-General of the United Nations, as Chairman of the Administrative Committee on Coordination (ACC), should prepare a System-Wide Plan of Action for African Economic Recovery and Development and submit it to the thirty-second session of the Committee in 1992. This recommendation was later endorsed by both ECOSOC (1990/83) and the General Assembly. A draft of the framework of the plan of action was submitted to the CPC for review. After it had been endorsed by the CPC, the Secretary-General of the United Nations called on agencies and organizations to make their inputs into the plan. The UNCTAD secretariat has made its inputs to the draft System-Wide Plan of Action, which is now being finalized. Areas of intensified international cooperation for development, agreed upon during the Eighth Session of UNCTAD, include the United Nations System-Wide Plan of Action for African Economic Recovery and Development.

77. The System-Wide Plan of Action derives from African strategies for socio-economic development. It is also part of the medium-term plan for the period 1992-1997 relating to the Programme on African Economic Recovery and Development and Transformation.

78. The Plan identifies current and planned activities of all United Nations agencies and organizations involved in the economic recovery and development of Africa and focuses on additional actions which the agencies and organizations themselves are proposing to undertake in support of a renewed effort to achieve economic recovery and development in the region, as well as the estimated resources for these purposes.

79. In accordance with guidelines from the Organizational Committee of the Administrative Committee on Coordination, the strategy is flexible and will be reviewed in the light of changing circumstances. It will be monitored regularly and actions being taken by agencies and organizations will be assessed. Although agencies and organizations will report for monitoring purposes to their own intergovernmental bodies, there will also be a requirement for monitoring reports.

80. The UNCTAD secretariat will, in its regular reports to the Board, report on the main elements of the Plan of Action when it is finalized and its implementation within UNCTAD, as may be appropriate.

Notes

1/ See TD/B/1280 and TD/B/1280 Add.1 for fuller details of UNCTAD's assessment of the UN-PAAERD.

2/ See for instance, Memorandum by the ECA Conference of Ministers to the Ad Hoc Committee of the Whole of the General Assembly on the Final Review of the Implementation of UN-PAAERD Appraisal, 1986-1990.

3/ The General Assembly by resolution 64/151 unanimously adopted the New Agenda which was annexed to that resolution. Report of the Ad Hoc Committee of the Whole of the General Assembly on the Review and Appraisal of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (A/46/41).

4/ Report of the United Nations Secretary-General's Expert Group on Africa's Commodity Problems, UNCTAD/EDM/ATFU/1, UNCTAD Geneva.

5/ Cartagena Commitment, para. 59.

6/ These consist, inter alia, of the African Charter of Peoples and Human Rights, the African Charter for Popular Participation in Development and Transformation and the Declaration of Heads of State and Government of the Organization of African Unity (OAU) at their 1990 Summit.

7/ Africa's Commodity Problems: Towards A Solution: UNCTAD/EDM/ATF.1.

8/ See part B, paras. 31-35 of the New Agenda.

9/ Report of the Secretary-General on the Implementation of Diversification in Africa at the national, subregional and regional levels with the support of the International Community (A/46/324/Add.1).

10/ Fraser Group Report.

11/ See Part B, para. 26 (a)-(f) of the New Agenda.

12/ Agreement was reached in the informal consultations of the Secretary-General of UNCTAD with Member States of the Bureau of the Trade and Development Board and Coordinators on 18 June 1992.